NEOGEN
CHEMICALS LTD.

November 15, 2021

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 **Scrip Code No: 542665**	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **Company Symbol: NEOGEN**

Sub.: Q2H1FY22- Earnings Call Transcript.

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q2H1FY22 Earnings Conference Call held on Monday, November 1, 2021.

The transcript is also being uploaded on the company's website at www.neogenchem.com .

Kindly take the same on your record.

Thanking you,
Yours faithfully,
For Neogen Chemicals Limited

NEOGEN CHEMICALS LTD. THANE

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Encl: As above

Registered Office : 1002, Dev Corpora, Cadbury Junction,
Eastern Express Highway, Thane (W) 400 601, India.
CIN No. L24200MH1989PLC050919

E : sales@neogenchem.com
W : www.neogenchem.com

T : +91 22 2549 7300
F : +91 22 2549 7399

Neogen Chemicals Limited

Q2 FY22 Earnings Conference Call

November 01, 2021 at 2.30pm IST

Moderator Ladies and gentlemen, good day and welcome to the Q2 FY22 Earnings Conference Call of Neogen Chemicals Limited. As a reminder, all participant lines will be in 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 to the 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. Nishid Solanki of CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and welcome to Neogen Chemicals' Q2 FY22 Earnings Conference Call for analysts and investors. Joining us on the call today are senior members of the management team, including Dr. Harin Kanani - Managing Director, Mr. Anurag Surana - Director and Mr. Ketan Vyas - Chief Financial Officer.

We will commence the call with opening thoughts from the management team, post which we shall open the session for Q&A, in which the management will be addressing any queries that you may have.

Let me leave you with our standard disclaimer here. Certain statements made or discussed on the conference call today may be forward looking. The actual results may vary from these forward-looking statements. A detail disclaimer in this regard is available in Neogen Chemicals' Q2 FY22 earnings presentation.

I would now like to invite Dr. Harin Kanani to begin by sharing his perspective on the performance and the progress that the company has made. Thank you and over to you, sir.

Dr. Harin Kanani: Thank you, Nishid. Good afternoon, everyone and welcome to our Q2 FY22 Earnings Conference Call. I hope you have had an opportunity to go through our result documents that were shared earlier and also uploaded on stock exchanges websites. I will take you through my views on the overall performance and key strategic drivers. Then our CFO, Mr. Ketan Vyas will present to you the financial overview during the period under review.

During the second quarter of this fiscal year, we demonstrated accelerated revenue performance, which was bolstered by high throughput levels at our plants with the contribution from our phase 1 expansion fully commissioned in September. Volume expansion came in despite several operational headwinds witnessed during the period under review. Our persistent focus on product and process innovation, as well as adherence to volume commitments made to our customers has been our forte and we will continue to reinforce this to deliver superior performance.

Now, let me quickly share some key financial data points. In Q2 FY22, our revenue growth stood at 38% while EBITDA grew by 33%, and profit after tax improved by a

robust 51%. Growth in organic chemicals was 35%, while inorganic chemicals revenue increased by 63%. As you may recall, lithium prices had corrected in Q2 of last year resulting in lower base. Prices were back to normal levels in Q2 FY22. Accordingly, we have estimated a positive impact of Rs. 4.79 crore from pricing in our inorganic chemicals' revenue in Q2 FY22. The rest has been driven mostly by volume growth.

Moving on to some key developments: I am delighted to share that we have fully commissioned our first phase of expansion in September 2021. This was also our first major expansion from ground up to a world-class state-of-the-art plant of specialty organic chemicals, with focus on advanced intermediates adhering to internationally followed best practices of safety and engineering protocols. This will significantly enhance our position in the chosen chemistries and will allow us to manufacture high-margin value-added products based on multiple process stage chemistries. Also based on solid demand for our products, we advanced our phase 2 project expansion timelines and commissioned the same in October 2021. This was earlier planned to come on stream towards the end of the year. With this, we are fully capable and ready to achieve our stated revenue guidance for the next couple of years.

Now turning your attention to some exciting initiatives that we are undertaking in the lithium-ion battery materials and CSM space. The Board has approved an initial CAPEX outlay of Rs. 35 crore to manufacture 250 MT p.a. of electrolyte capacity for lithium-ion batteries, advanced chemistry cells and developing a pilot facility to speed up process development scale up and commercialisation of specialty chemicals as well as overall site development at Baroda facility, which will be the main site for development of the lithium-ion battery related initiatives. We see a number of projects with innovator customer increase with the commissioning of Dahej plant. The pilot electrolyte capacity for the lithium-ion batteries is expected to be one of the first such plants in India and likely to be ready by end of Q3/Q4 FY23. This will enhance our total revenue potential to Rs. 700 to Rs. 725 crore in FY24 based on the contribution of initial sales of electrolyte and development molecules from the pilot plant based on the new CAPEX. This will be our initial investment in this area and we are working with our customers to decide further capacity needed and timing for the same. This is in line with our focus of foraying into high potential segment of lithium-ion battery materials on which we have been working with several customers over the last two years.

As you may be aware, the Government has announced $2 billion PLI scheme to support manufacturing and localisation of advanced chemistry cell production units with focus on localisation of supply chain, which is expected to benefit Neogen Chemicals. Recently, on 22nd October, 2021, the global tender was also released and the timeline for execution for the same has been more clearly defined. This supportive policy action by the Government and recent global emphasis, initiatives on climate change control and positive response to EVs in India as well as across the world, we are seeing more and more of our potential customers crystallising their investment plan in this area.

As per industry estimate, the production of lithium cells in India is expected to touch around 160 GWh by 2030 from negligible levels currently. This is expected to translate into the electrolyte demand of 50,000 to 70,000 MT by 2030 as per our internal estimates arrived at with customer discussions. This is a quantum leap in demand over the next one decade. Our existing inorganic manufacturing capacity

can further be expanded or modified to make internally the lithium salts and additives needed for the electrolyte, giving us the benefit of backward integration. Using our expertise of 30 years in lithium chemistry, we are confident of leveraging this opportunity which will also significantly expand our addressable market size.

I will now conclude by underlining that the opportunities in the Indian chemical industry are immense, and Neogen will continue to deliver a profitable growth performance that is driven by our recognised strength and niche chemistries. The focus will be to create sustained value enhancement for all the stakeholders while continuing to cement our leadership position. With that, I would request our CFO, Mr. Ketan Vyas to share his views on the financial performance of Q2 FY22. Ketan, over to you.

Ketan Vyas: Thank you Dr. Harin. Good afternoon, everyone and welcome on the call. I will share the key financial highlights for the second quarter of financial year 2022. All comparisons are on year-on-year basis and refer to standalone financial performance.

In Q2 FY22, our revenues increased by 38% to Rs.113.2 crore, largely driven by incremental contribution from phase 1 expansion. As you may be aware, the export incentives under RoDTEP was excluded for technical and pharma industry by the Government in a notification issued in August 2021. Accordingly, a one-time charge was taken for reversal of benefits provision in FY21 and Q1 FY22 against the same and accordingly our revenues for Q2 FY22 includes the impact of Rs. 1.2 crore.

EBITDA improved by 33% to Rs. 20.5 crore translating into EBITDA margin of 18.1%. High utilisation levels at our plants aided the EBITDA performance, notwithstanding several operational challenges witnessed during the quarter. Profit after tax stood at Rs. 11.2 crore, higher by 51% driven by strong contribution from key product categories and expanded capacities. Reduction in effective tax rate due to higher revenues from SEZ facility and higher tax benefit on depreciation linked to capitalisation of Dahej unit positively boosted profit after tax.

In Q2 FY22 our domestic and export mix stood at 46% and 54%, respectively.

That concludes my opening remarks, and I would now request the moderator to open the forum for questions from participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: The first question is on the electrolyte capacity. In terms of technology, if you could just let us know, whether the technology is our own technology or is it taken from someone else? And in terms of potential, you have said Rs. 700-725 crore. Is this from the 250 MT capacity or something else? Thank you.

Dr. Harin Kanani: Hi, Rohit. Thank you for the questions. Just to clarify, Rs. 700-725 crore is the total capacity for Neogen where this 250 MT is going to contribute. If you may recall, in our previous call, we had given guidance that the existing capacity is sufficient enough to serve Rs. 650 to 675 crore. With the Rs. 35 crore CAPEX, this can be increased by around Rs. 50 crore, which also includes the lithium Ion battery electrolyte business. The pilot facility for specialty chemicals will also generate some revenue. So, together that is going to increase the revenue to Rs. 700 to 725 crore. As regards the technology, it is still under the final stages of optimisation and looking at the speed at which this is happening, many decisions will be running in

parallel. So, currently the technology which we are planning is designed in-house and it is our own technology.

Rohit Nagraj: Right, got it. The second question is on the long-term contracts. We had earlier indicated that we have revenue visibility, based on the order book of about Rs. 60 to 80 crore for FY22. We will still stick to that, and we'll be able to meet up for FY22 right?

Dr. Harin Kanani: Yes. The long-term contracts will contribute in the range of Rs. 60 to 80 crore in the current FY22 financial year.

Moderator: Thank you. The next question is from the line of Anshul Verdia from Edelweiss Wealth Research. Please go ahead.

Anshul Verdia: I have couple of questions on the electrolyte CAPEX which the company is undergoing. One of them was addressed by the previous participant - that Rs. 50 crore is the revenue opportunity which will come in FY24. So, is it safe to assume that Rs. 25 crore will come in FY23 as the plant will be operational in the second half?

Dr. Harin Kanani: The electrolyte is a developing story, where finally we depend, at least within India, on our customers commissioning and fructifying their plants. As I mentioned in my opening remarks, with the PLI scheme which was first announced, people who were considering this have started working in a more focussed manner. Some of them have decided on the technology, some are still deciding the final technology of the cells which they are going to use, which will define the specific electrolyte that they need and the composition of the same. We are very confident that at least by FY24 that contribution will come. Also, Rs. 50 crore which you have mentioned, there is some contribution coming in from our pilot facility also. So, that's the overall outcome of the Rs. 35 crore investment which we are setting up. But, for overall FY23, since Dahej plant has just been commissioned, some customers have already approved and more customer approvals are coming, we would like to wait up to Q4, when we can give you better clarity on FY23 and in that we can also address how much contribution will come from electrolyte. But for sure, by FY24 this electrolyte facility will fully contribute.

Anshul Verdia: Thank you. That's helpful. Just one follow up. First is how do we plan to fund this CAPEX of incremental Rs. 35 crore and second, I am just trying to understand that if this opportunity of lithium batteries is such a big opportunity, then where do we stand in comparison to other players? They would also be excited about this and they would also start with capacity building. Any thoughts on the competitive advantage we have into this particular business?

Dr. Harin Kanani: Your first question was how are we going to fund this Rs. 35 crore. It will be a mix of our internal accruals and debt. And there will be some time going for planning, so there will be some expense on that in Q4. But most of the expense or the fixed asset addition should happen in next year Q1 and Q2. Mostly it will be for the next year. This year there will be limited impact in terms of increase in gross block because of this. So, that's answering your first question.

Second is the competitive advantages which Neogen has. The advantage when it comes to making electrolyte, there are three aspects. One is the lithium salt which is part of the electrolyte. Neogen has been making lithium compound. The major contributing factor in electrolyte is lithium salt and that is also the heart of it and some of the additives, which also happen to be lithium additives. Neogen has now

almost 30 years of experience in making these lithium salts. And some people also see a challenge to be able to source lithium, because the world is expecting lithium to be in a tight supply situation. Neogen's 30 years of experience of having worked with the top two, three companies in lithium supply, our experience of making very high purity lithium salts, where we also have to control PPM and PPB level of impurities. Also, as compared to other companies, Neogen has been already working on this for last two, two and a half year - working with both, international customers as well as domestic customers who are interested. So, we have a head start on that. Of course, there are global players who are also present who have been doing this. But there is also a very large demand globally, not just in India. So, there could be some competition if the global players decide to come to India, but then over them, we would have the India advantage, with existing presence in India. And as compared to other domestic players - they could have their own advantages - but Neogen's advantage will be the lithium backward integration, using lithium and making lithium salts for last 30 years. And having started 2- 2.5 years ago to understand intricacies of all the aspects related to electrolytes.

Anshul Verdia: That's really helpful. So, we can expect there can be some dedicated client based plants coming up in the next two, three years with business scales up?

Dr. Harin Kanani: Yes. The idea is that, we want to get started with this. So, we at least have almost like a commercial kind of plant outside of laboratory, where it is a significant size, and then you can multiply this or you can scale that up. For example, we make a plant for 250 MT. So, we can say, okay we can make it four times bigger and becomes 1,000 MT and then we can have four such lines or three such lines, depending on the volumes. But, once we have done it at that scale, we will have a better idea on detailed aspects of this technology. So, the first idea is to do that. And the second is also to demonstrate that we can do this and then to support for some of the customers that have a requirement of this in the next financial year for their initial quantities. The idea is also to cater to them, so they also get a better understanding and experience of using Neogen's material. And then as other customers come on board and (when we) have a better idea on the volumes, we can plan our capacities in that way.

Moderator: Thank you. The next question is from the line of Manish Jain from Money Life Advisory. Please go ahead.

Manish Jain: My first question is, can we expect a significant ramp up in revenue in the next two quarters as phase 1 and phase 2 organic capacity has now come online?

Dr. Harin Kanani: Yes. I would say there will be some increase in revenue. Again, there are some additional customer approvals, etc., also required. The final ramp up will depend upon how fast this customer approvals come. Sometimes we have to make some quantity, give it to customers and the customer has to do its testing. It will depend on some of these aspects. But we are now confident to achieve the Rs. 450 crore revenue target which we had estimated for this year because roughly it requires us to do at least Rs. 125 crore in next two quarters, which seems doable with phase 2 capacity also available. So, some revenue contribution coming from there as well as phase 1 being fully available. I would still keep Rs. 450 crore as our target and then let's see how the customers and how Q3 goes and then we will have a better idea.

Manish Jain: Secondly, in relation to our new CAPEX, whom do you expect the major consumer of these products to be? Will it be the EV guy who consumes this or renewable players?

Dr. Harin Kanani: May be better to explain where we are in the value chain. Let us say there is an EV vehicle maker. Now, this EV maker buys batteries from someone. Some of the EV makers may choose to make their own batteries. This is happening even today. Now, inside the batteries, there are specific kind of multiple cells which are called Advanced Chemistry Cells or ACC in short. These advanced chemistry cells are right now not produced in a significant quantity in India. They are imported from China, Taiwan, Korea, Japan, etc. So now, these will start getting manufactured. Now, again some of the EV companies may decide because battery is supposed to be a significant cost of the machine and they may make the cells also and some might be independent cell and battery producers who will basically make these cells. Now for these cells, there are three main components. We have given in our slides different components of a cell. Our focus is currently on electrolyte. So, this is where lithium is present and to some extent it is present in cathode. So, these are the two areas with lithium and in this our focus is electrolyte. So, the person who makes the cells will be our target. Now, of course, the final batteries can be sold to renewable as well as to EV players. Based on the current estimates by industry available, EV volume is going to be much higher as compared to renewables, but it will also depend on how much renewables pick up and how the entire shift from non-renewable to renewable happens. But, overall as a final industry, the EV is likely to be higher consumer as compared to renewables as things stand or the projections that we have seen from the battery manufacturers' point of view.

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

Saurabh: On this new CAPEX, do we already have some understanding with the end customer for the supply of the initial 250 MT of production?

Dr. Harin Kanani: There is at least part of the quantity we have some clarity. Still detailed technical evaluations are going on, but for a part of it we already have some clarity. Remaining, the customers are waiting for some clarity from our side that when can we get it ready so they can give us better clarity. With the Board approval we will freeze our timelines and can have more meaningful discussion with our customers, on their immediate requirement for the FY23. But yes, there should be some revenue contribution of this in FY23 and by FY24 for sure, we will have this being used fully and any additional volumes which we may have to add to support the customer demand at that time.

Saurabh Kapadia: Okay. Anything in terms of the timeline for the customer approvals? Even after your plant has fully commissioned, what is the timeline for customer approvals so that we can go ahead for the expansion?

Dr. Harin Kanani: This is a new area for us as well as for majority of customers - at least in India. Some of the international customers with whom I have talked to, the overall evaluation timeline can be three months to six months, even nine months depending on how stringent is the customer. But not all of that will depend upon our plant getting ready, some of the evaluations will also happen from the materials which we make in our R&D. So, I would say three to six months post the plant becoming ready. It can be sooner but that would be the normal expectation.

Saurabh Kapadia: Okay. And the asset turnover will be similar to the inorganic segments?

Dr. Harin Kanani: Currently we have just made investment into a relatively small sized plant, or what we are currently planning. So, it is too early for us to define the asset turns. And, I would like to hold back answer on that till we have a better idea of commercial plant capacity.

Saurabh Kapadia: And one more finally on this CAPEX. You mentioned that you can also modify your existing inorganic plant. Going ahead, do we see the possibility that with a limited CAPEX we can scale up the manufacturing of lithium salts in our existing plant?

Dr. Harin Kanani: One is, making the electrolyte will require a dedicated facility. But for the salts which are required for the electrolyte, we can modify our existing plants or depending on the quantity required, we may have to set up additional (capacity) but, at least in the initial couple of years our existing plants with modification can make the salts which will allow us to get the lithium salts required for the electrolytes up and running faster and in the meantime, get ready for the final electrolyte handling.

Saurabh Kapadia: Okay. And this pilot facility which we are setting up. Is it for the existing molecules which are in the R&D stage or scale ups? Are we looking at the newer molecules that will come through because of the expansion which just got completed?

Dr. Harin Kanani: We already have a pilot facility but let us say they are two, three reactors in our Karakhadi plant and two, three reactors in our Mahape plant which are doing these trials. But what we want to do is, because now with Dahej site coming in as we have mentioned that there are many global international giants whom we were not communicating with till our Dahej plant was ready. As we approach these customers, we expect the number of projects, that we will be handling to be much higher. And at such point of time having this dedicated facility will help us speed up the developmental cycle. So that in the future CSM business or advanced intermediates business, we can shorten the developmental time. That is basically the purpose behind the pilot facility. Of course, it will also be equipped to make some of the lithium compounds or the new lithium salts also. So, in some sense, the pilot facility will support both these initiatives.

Saurabh Kapadia: Yes. I was talking about FY23 revenue guidance. Can you achieve Rs. 650-675 crore revenue in FY23 itself given that both the CAPEX commercialised this year itself?

Dr. Harin Kanani: I just answered one of the previous participant that, I would wait till the end of Q4 to basically give you guidance for FY23 just because, how long customers are taking to approve this site and there are many moving pieces. So, once we have clarity on that, we can give you FY23 guidance. But the total capacity that we have, can generate Rs. 650 to 675 crore and this new CAPEX can add another Rs. 25 to 50 crore in FY24. So, we are quite confident that at least by FY24 we will have a capacity to reach Rs. 700 to 725 crore and if the market conditions remain the same, most likely by FY24 we should have all the approvals in place to have a full utilisation and generate that revenue. But for FY23, I would like to hold till Q4 of FY22.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: Dr. Harin, given the fact that in this product there could be a lot of demand for import substitution, this is something which we have a lot of experience in. What could be the gross margin, for this new project vis-à-vis our existing business?

Dr. Harin Kanani: You mean for the electrolytes?

Manish Gupta: Yes.

Dr. Harin Kanani: When it comes to electrolytes specially at a commercial scale, what is really first important for us to know is what is the final stable volumes which we are going to make. So, the first question Mr. Manish we will have to answer is, what is the volume and at that volume, what is the manufacturing cost, and what is the price which the customer is willing to pay as compared to international. Again, it is a bit too early for me to define gross margins at this point of time. One more aspect in this is also very high fluctuating lithium prices. How that lithium prices will factor into the gross margins is a bit early for me to explain at this point of time. One more factor also is that how much we are able to go backwards. So, for example, as I mentioned, whenever we will make, let us say the lithium salt ourselves, because we are starting from bare lithium mine output, or lithium carbonate or lithium hydroxide, our gross margins will be higher. If I was looking only at the electrolyte where I was buying the salt from somewhere else, then in that case, the gross margins would be lower. Therefore, if you can give me some quarters to understand this, and I am sure before we announce the plan for bulk commercial volume plant, we will have much better answer for this. But at present, it is a bit difficult to predict.

Manish Gupta: Yes. Actually Dr. Harin I am not looking for specifics. I am just trying to understand that the stuff that we are doing on electrolyte from a complexity, from an innovation perspective, is it more value-add vis-à-vis our existing business? I am trying to understand on first principles, are we doing more and more downstream stuff or is it the same in terms of complexity vis-à-vis what we do at present.

Dr. Harin Kanani: In terms of complexity, let us say I would like to compare with lithium bromide, which we have been making for last 30 years. So, this is something which is used in engineering, as we make lithium bromide. And then when you say electrolyte, it is a formulation which you are making for lithium bromide, where we have to control impurities, we have to control some parameters and we also have some additives to give the properties which it requires for performance. So, that would be our closest point of comparison. As compared to lithium bromide, electrolyte is quite complex. So, yes, we have experience of that, but the criticality or the degree of impurities required or the control which is required is much higher in case of the electrolyte. So, from that point of view, yes, I would expect as compared to the lithium bromide sales to an engineering company, the electrolyte sales should have better margins overall.

But your earlier question was, gross margin. That is the part which I am right now not ready to answer - whether the gross margins will be better or at an EBITDA level, it will be better or because of a higher value. Let us say, what our expectation is that for installed capacity, or at an IRR level it will be better. But yes, it will be more critical and just as in engineering, once we tied up with a customer, we had those customers for 30 years. My hope is, that if we can tie up with some such customers now, it will basically establish a very long-term relationship because like engineering, even in this case, the end users are not chemical companies. So, they are actually looking for somebody to also bring in knowledge and experience from chemistry point of view. So, that is the role which with our experience we can try to play and if we do it successfully, it can be a very long-term business for Neogen Chemicals - just as lithium bromide, which started in 1985, is still for us.

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

Nilesh Ghuge: Dr. Harin, my question is on this 250 MT electrolyte capacity. Can you just elaborate on the competition landscape from domestic as well as international players and definitely, there must be some international players who are currently ahead of Neogen Chemicals and where do we stand in terms of the niche to compete with global players as well as domestic players?

Dr. Harin Kanani: To some extent. Let us say when we are talking of the international players, yes, the international players have been making this and supplying this for many years. So, they have better experience. To the best of my understanding, the lithium salt producer is different and the electrolyte maker is different. One thing which Neogen is doing different is, we are doing it all in one shop. So, some of the things or some of the decisions which we make in our lithium salts can help our final electrolyte formulation, and there is better coordination. So, this is one.

Second is that, right now they have many, many opportunities. They have opportunities in Europe, they have opportunity in US with the speed at which the entire world is moving. So, how much is their interest or how much resources they can give to India, which also requires within time because India also wants to grow. So, that's also another question that will they have the India focus, or how attracted they would be for India. So, that's the second point.

And the third is, they would have to start from scratch to set up the facility. So, whether they can meet the timelines of the customers, because customers want it by a certain date, whereas we have existing facility. We have this backward integration into lithium salt. All of these will help us to speed up the process and hopefully meet customer requests faster. Having said that, we believe there will be some competition, or some of it might be imported, how much will be in India needs to be seen. So, all of these will develop over the next two to three years. And we will have greater clarity. But this is the advantage which I see over international players.

And over domestic, I would say what I said earlier that, just the fact that we are doing lithium salts for last 30 years, we have been working on this for last 2-2.5 years. And as I mentioned, also in my opening comments, we already are in touch with some 8 or 9 customers. But this is too early so I don't know what other domestic companies who are thinking about this and how far ahead they are. So, I can just guess that, these are the things which gives Neogen Chemicals at least some edge to basically have a play in this area.

Nilesh Ghuge: Okay, thanks. And my second question is on our existing business. In our last interaction you mentioned that you are negotiating with 8 to 10 clients and the molecule size is close to Rs. 25 to 60 crore per annum with phase 1 and 2 now already commissioned. So, at what stage currently the negotiations are and what are the chances that you may announce the contract or anything, in the next couple of quarters?

Dr. Harin Kanani: I would like to announce (chuckles) but the question is…So, I don't know…it happens when it happens. What I would say is that, yes, things are moving along as I have mentioned earlier. Some customers who had tried pilot quantities have now given us the first commercial order for trials. Some who were in R&D have given us a pilot order. So, things are moving along, but it is a little bit difficult for me to predict. Again, FY23. I would like to wait till Q4 of this year to predict FY23. But I

still keep my guidance that FY24 we will try to have at least 20% of the revenue coming in from CSM. So, that is the growth which I am expecting. But when can I announce, when will it happen, who it will be, what will be the size, these questions I am not clear enough right now to answer with certainty.

Nilesh Ghuge: Okay. And my last question is on the balance sheet. The short-term debt has gone up, if I compare that with the end of FY21 number. And it has gone up to Rs. 1.3 billion from just Rs. 0.8 billion. Do you think the overall debt will increase further from the current level by the end of this financial year?

Dr. Harin Kanani: Ketan would you like to answer this?

Ketan Vyas: Yes. As we look at our projections for the next six months, and given the volumes that we will achieve in next six months, and expansion what we spoke on lithium, our total debt should be around less than Rs. 300 crore and short-term debt, we look around at a similar level or may be marginally upward to meet the revenue growth of going forward.

Moderator: Thank you. The next question is from the line of Gaurav Chopra from Union AMC. Please go ahead.

Gaurav Chopra: Thanks for taking my question. Also, I just had one question again on this lithium opportunity. In your presentation you have sort of mentioned in one slide that, what is the composition of the cost of battery in terms of cathode materials, in terms of electrolyte, you also mentioned that, what are you going to do in terms of basically you mentioned that electrolyte, lithium salts, specialised cathode materials, just wanted to understand from the opportunity perspective, what could be the opportunity size for Neogen Chemicals in this total cost of battery?

Dr. Harin Kanani: Hi, thanks for the question. As you see currently our focus and the clarity that we have is on the electrolyte segment. So, that electrolyte which generally contributes between 8% to 10% of the cost of the final cells, is what is basically we are clearly targetting. When it comes to cathode, there is one cathode material which is very commonly used or most popular is a category called NMC. So far, we have not worked on that, but there are some specialised cathode materials which we are working on, but they are relatively in an early stage of development. And we don't have clarity as a whole that how much of the industry use will be for NMC and how much for the cathode materials that we are targetting. So, for now, when we are thinking of it in terms of business volumes, we are largely focussing on electrolytes, and this is where we have clarity. Like, we have mentioned in our presentation, and in my opening call, the total demand by 2030 in India is expected to be in the range of 50,000 to 70,000 MT, if the 160 GWh capacity is put in place. Now, again, based on lithium prices, these electrolyte prices also change, and it is a bit early to predict in terms of how much crore it is, but it will be in few 1000s of crores by 2030 in India. More important question from an immediate point of view is, how is it going to ramp up and will it reach the 160 GWh, which has been projected. So, those are the questions on which we will get clarity in next one or two years.

Gaurav Chopra: Got it. Just one question from my side again. So, you have mentioned that the majority of the CAPEX will follow in the H1 of FY23. Is it safe to assume that if you do contract this capacity to ramp up in the way it is being projected, it is easy for you to scale up the plants for the electrolyte?

Dr. Harin Kanani: I did not understand your question. Can you repeat it?

Gaurav Chopra: Yes. Basically, you said, the majority of CAPEX for this project is going to happen in H1 of FY23. The amount taken to commercialise this plant is appearing slightly low. So, my point is, in case this capacity for lithium cells scales up the way it is projected to, from your side will you be able to ramp up your capacities as well in a shorter span?

Dr. Harin Kanani: Yes. Most of the investment that we are currently doing is for a relatively very small capacity - 250 MT per annum. This is relatively a very small size. Again, it is a chicken and egg situation that there was not complete clarity from the customers. But, inspite of that as I mentioned, at least there are one or two customers who said we are going to have some initial trial runs or a trial plant which is going to require so much quantity. So, based on that view, at least we went ahead and took a decision. Now, based on my understanding, and with the level that we are prepared, when our customer starts making a plant for making these cells, even if I start at that time making a plant for the electrolyte, my time will be shorter than the plant which is going to come up for manufacturing the cells. So, as and when our customer basically makes the final investment decision and breaks his ground for setting up the plant, I will be faster than them. So, I don't expect much of a challenge and we are in very close communication with many of these customers trying to understand their need. They also understand Neogen's capabilities, appreciate Neogen's so many years of experience. So, we will have time to expand to meet the larger demand of our customers. I hope, I answered your question.

Gaurav Chopra: Yes, thanks. Just last question from my side. You have also mentioned in your presentation that you are in discussion with some potential manufacturers, including overseas players, the tied-up capacity which you have just talked about, are these domestic players or they are overseas players?

Dr. Harin Kanani: Sorry, please repeat!

Gaurav Chopra: The capacity which you said that it is partly tied up for your customers R&D initiatives.

Dr. Harin Kanani: In Domestic players we are in more advanced discussion and with one of the international players as well for that.

Moderator: Thank you. The next question is from line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Again, circling back to the lithium thing. Just wanted to understand how immune would we be to the disruption that is likely to happen in this particular technology. How should one view that irrespective of the disruption in the technology, probably the lithium salt would still be needed and to the extent Neogen would be secured?

Dr. Harin Kanani: Ranjit thanks for this question. And this has been a question which we have been also asking ourselves for last two years. And one of the things which we were waiting for is customer clarity. So, with higher interaction with the customers with what we have talked, there seems to be quite a consensus that because of the property of lithium for having the highest charge to weight ratio, at least for EV, lithium will always be in the place. What form of lithium, liquid electrolyte, solid electrolyte, etc., different things which are happening, which can happen, but lithium will be required, lithium salts will be required. And at least for next four to five years, people are thinking that the existing mix, which we are targetting is going to remain. So, for next four to five years, the existing chemistry is likely to rule, there are some new things which are happening, but by the time they are first of

all tested, then have a kind of a smaller launch test, then somebody internationally who understands this technology will actually put it for use, and then for example, India starts to put it for use; that is going to be at least four to five, six years' period. So, even if the chemistry changes, we will be able to have enough time to adapt to that different chemistry within the lithium set. The only other technology which people talk about are flow cells and sodium-based batteries or in the battery space. Again, there are mostly people considering for renewable, where the weight is not supporting the batteries for renewable, where weight is not such a big issue, but for EV still, large consensus is that it is going to be the lithium-based batteries so far. And anyway, this is also on our mind so currently the commitment of CAPEX which we are doing is very limited. And whenever we do a broader, larger CAPEX in future we would also want some kind of customer assurances to minimise the risk on Neogen Chemicals if at all the technology were to change very fast. I hope it answers your question.

Ranjit Cirumalla: Yes, it does. Thank you very much for that. Follow on to that, you mentioned that you are working with 8-9 players or the customers who have expressed interest in the advanced chemistry set. So, in the event, we do go ahead, would customers like only one supplier or he would like a free to kind of a procure from Neogen, is also supplying to his competitors. How are the dynamics going to work in that place?

Dr. Harin Kanani: If I look at international business, both things happen. Mostly it is one on one relationships, but sometimes some companies do have, the cell producers do have multiple suppliers. So, we will see how it works in India.

Ranjit Cirumalla: Sure. One final question if I may. Now with the electrolyte and the EV thing also kind of gaining traction, and we have the CSM side. So, how is your time going to spend on these two new fast-growing activities?

Dr. Harin Kanani: So far, my time was majorly behind getting the Dahej plant started, because that was my biggest worry, because that is Neogen's one of the biggest investments we have made. So, ensuring that they are put to use productively was taking my largest time. Both CSM and lithium will remain my focus. Will remain Neogen's focus. Even in terms of our R&D, CSM bit is taking more resources, but from my time point of view, because we have a team in place like our VP R&D or our site manager, or our VP Business Development who already have a good understanding of CSM business. There is enough expertise within Neogen Chemicals for CSM. So, my time hopefully will be going more towards lithium-ion battery, then for CSM. But we will see. I mean, sometimes lithium-ion is future and CSM requires something today, I have to be flexible and will be flexible that way.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: For the two innovator multiyear contracts we have, are these products scaling up at the innovator end? Are these off the pre-launch phase and fully commercial?

Dr. Harin Kanani: Yes, both of these are now commercial. One of them if you recall is a US based pharma customer. The pharma customer has already launched the product in US and they are expecting launch also in Europe and Japan shortly. Similarly, the agro customers also have made the final product out of that. I am not fully aware whether it will hit the market this year or next year. They have not shared that information with us. But basically, both of these are commercial and have been used by the customers now and the volumes will ramp up.

Keshav: You mentioned in one of our previous calls of assured off take you have with them, it is a multiyear contract, so for the products that are yet to launch. Is there a kind of risk that they might not end up doing as they have planned?

Dr. Harin Kanani: Yes, in this particular case, both of them have launched the product, and there is always that risk. But very rarely, to the best of my experience, most of these companies have invested billions of dollars to reach to that stage when they are at launch. So, they don't give up without clarity for three years or five years at least. Maybe, I can ask Mr. Surana, who has years of experience in this to answer this. Mr. Surana would you like to add?

Anurag Surana: Dr. Harin as you rightly mentioned, all these investments, they are multibillion dollar investments done by customers and these investments are done in phases. They do investment in research, they do investment in data generation, in pharma, they do investment in phase one, phase two, phase three, clinical trials, in agrochemicals they spend money on, regulatory approvals in each country. So, all this money is never ever spent without having a very, very clear visibility about the efficacy or any adverse effect of the product or anything like that. A product just dropping off the cliff is a very, very, very rare occurrence. Theoretically it can happen, but it is a very rare occurrence. And these companies are very careful about making these very large-scale investments. So, while an assured off take actually means a take or pay right, nobody gives a take or pay kind of contract, but it is a very, very remote possibility that they would just stop suddenly.

Dr. Harin Kanani: And just to add to that, from our side these reactors can be used for our own other molecules also. So, worst case scenario, we may need some time to adjust but we can make our own molecules and wherever we had specific equipment's, which are designed specifically for these products, we have taken assurance from the customer that suppose if they don't complete the contract, then they pay us to the unutilised portion for these specific equipment's. So, to that way, some kind of a comfort has been taken from the customer.

Keshav: Yes, but most of these plants are fungible?

Dr. Harin Kanani: Yes.

Keshav: Recently I came across the mention of an industry trend in the CDMO space, especially pharma. I am not sure about agro, about innovators asking for multi capabilities, CDMOs to provide the entire basket of services. I wanted to have your views on it. Like if we go through the vertical chain, now the product would move from different stages, intermediate onto the API. Do you feel that despite of this ask from the innovators to consolidate the supply chain, and intermediate manufacturer like us would rarely graduate to the API level and the API guy will not find as much value to completely backward integrate and would there be sort of an equilibrium somewhere in between?

Dr. Harin Kanani: I am not specifically aware of the specific trend or the discussions which you are referring to. But just looking at a business point of view, most of the times if an innovator is making this ask, it is to do with the questions where they have seen supply chain disruptions, and customer wants to make stability of supply. So, suddenly, a Chinese company stops, so because of that an API producer is not able to make it, then the customer insists that, you should be able to make this on your

own if needed. So, as long as we are a reliable supplier, the customer would still want to continue working with us at an intermediate level, or advanced intermediate level. And from whatever discussions I have had, I have seen, specially in Europe, more and more companies wanting to get advanced intermediates from India instead of China, as far as I can tell. So at least from Neogen's perspective, there should not be a very big disruption. And the biggest difference between us and the final API producer would be, a completely US FDA approved site versus a site which has been following US FDA norms, which has been audited by the customers. So, there's a little bit of differential between the two sites also. So, we suddenly can't from tomorrow start making APIs and an API company when it has option of making APIs, which is already under demand would not want to make intermediates or KSM at a very short notice unless it has a supply security issues. So, this is just my views on that, but let's see how it progresses.

Keshav: One last thing. Are we being conservative when we forecast the Rs. 650 crore top line. So, is it potentially the minimum or maximum? It is our expectation to reach this level and sort of gradually increase utilisations? Because we already did Rs. 270 crore of revenues in organic in FY21 and I can understand the newer capacities would be more for AI and CSM, and more of dedicated facilities. But are we saying that Rs. 650 crore is the max we can do or more like we will start from this but potentially can scale more from the same capacities in the years to come?

Dr. Harin Kanani: From the same capacity, it will depend upon how the product mix that we ultimately depends on, the percentage of reactor capacity needed for a unit dollar, or a MT is required or per value of the final molecule is required. So, yes what we feel is that, if our reactors are used, we should be able to get Rs. 650 to 675 crore. Based on the mix of molecules which we have on target. For example, if we were to do only bromine derivatives, it could be slightly higher, in terms of revenue but then margins may have some other impact. So, this is kind of a mix, so it is neither the minimum nor the maximum with the existing capacity that we can do. And, again, as we stabilise more, we will have an idea on what is the maximum we can get out of the existing capacity.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: I have one question and that is related to the base business. We have seen, the price increase for bromine from China by around 2x. How is that affecting our base business. Is there any positive impact in terms of the international business inquiry for the advance bromine intermediates, because the domestic bromine prices are almost at the same level, if I am not wrong. Can you please share your thoughts on that?

Dr. Harin Kanani: Yes. We have seen for example, a lot more interest from our international customers in last one month, since a news article came that Chinese bromine prices have doubled, not doubled but have increased significantly. Now, China sometimes goes through this cycle so we will have to see, first of all, how much stable this is, whether it is short term or whether it is long term. Because unlike India, and Europe, China tends to be a month-to-month very high variable market. They don't have this annual contract kind of a concept that we have. Or they fix a volume and do it so sometimes the spot prices can be a bit misleading. So, we will have to watch that. But yes, the immediate effect of that is that several international customers who were also relying on China and India have told us that, you have new capacity.

Can you give us some more quantities and we are also trying to see because most of these customers would require full commitment for next year. So, we are also talking to our suppliers, get a view of next year and see whether the customer would be interested with the new prices. But the immediate outcome is yes, we are getting more inquiries about business we will get to know next quarter.

Dhavan Shah: And China? Are they into advance bromine intermediates also or are they mainly into the bulk business?

Dr. Harin Kanani: Actually, there are three categories - one is bulk bromine derivative, which is the flame retardants, the water treatment, oil field, etc. That is what I call as bulk. Then I call specialty bromine derivatives which basically don't have demand of more than 1000-2000 tonnes per annum and third what I call is advance intermediates which we make. So when we talk of advanced intermediates, we talk of molecules made which can be bromine or non-bromine using this specialty bromine derivatives. So, I would say China is in all three spaces. Yes, they are present in bulk bromine also, they are there in specialty also and to some extent, they are there in the advance intermediates also.

Dhavan Shah: And we are witnessing demand from which space because of this thing?

Dr. Harin Kanani: We are not into bulk. So, I wouldn't know the answer to that. But we are seeing inquiries in the specialty bromine space because that is the place where we have done, where there is the immediate impact of bromine price at an advanced level, the impact of bromine sometimes gets a bit limited because other factors which contribute more, other than bromine.

Moderator: Thank you. I now hand the conference over to the management for their closing comments. Over to you, sir.

Dr. Harin Kanani: Thank you all the participants for joining the call. I hope we were able to satisfactorily respond to your questions. If you have any more questions, please feel free to contact our Investor Relations Team – CDR India and we will address them. Wishing all the participants festival greetings, Happy Diwali, stay safe. Thank you again and we look forward to connecting with you in the next quarter.

Moderator: Thank you. Ladies and gentlemen, on behalf of Neogen Chemicals Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.
