



“Advanced Enzyme Technologies Limited  
Earnings Conference Call”

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**MANAGEMENT:**

**MR. CHANDRAKANT RATHI - MANAGING DIRECTOR -  
ADVANCED ENZYME TECHNOLOGIES LIMITED  
MR. PIYUSH RATHI - CHIEF BUSINESS OFFICER -  
ADVANCED ENZYME TECHNOLOGIES LIMITED  
MR. BENI PRASAD RAUKA – GROUP FINANCIAL  
OFFICER - ADVANCED ENZYME TECHNOLOGIES  
LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Advanced Enzyme Technologies Limited 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 “\*” then “0” on your touchtone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Supreet Singh Josen. Thank you and over to you Sir!

**Supreet Singh Jossan:** Thank you. Good afternoon to all. On behalf of Advanced Enzyme Technologies Limited, I welcome all participants. From the management team today, we have with us Mr. Chandrakant Rathi, Managing Director, Mr. Piyush Rathi, Chief Business Officer, and Mr. Beni Prasad Rauka, Group Financial Officer. Thank you over to you Sir.

**Piyush Rathi:** Thanks. We would just like to quickly highlight as we begin the call. Thank you for joining us today this afternoon. So we will just quickly go through the financial highlights of this quarter and for the nine months FY2018. For the Q3, FY2018 our sales are up 73% year-on-year at Rs.1,082 million against Rs.627 million similar Q3 quarter FY2017. EBITDA is Rs.454 million as against Rs.192 million in Q3 last year is up by 136%. The EBITDA margin stands at 42% against 31% in Q3 FY2017 and overall the net profit has risen by 85% to Rs.265 million as against 143 million in Q3 FY2017. As regards in nine-month financials, the year-to-date financials, overall sales are up by 15% to Rs.2,869 million versus Rs.2,523 million in nine months last year. The EBITDA stands at Rs.1,166 million as against Rs.1,190 million down about 2%. The consolidated EBITDA margin stands at 41% as against 47% in nine months FY2017 and the net profit is down at Rs.652 million, which is down 8% compared to Rs. 712 million in the last year nine months. Overall it has been as we have been saying this is just a consolidation of the trends and we would like to open up the floor for questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vaibhav B from HNI Investment. Please go ahead.

**Vaibhav B:** Congratulations for a good set of numbers and thanks for providing me the opportunity. I want to get a sense on how the product pricing works for the company with respect to exchange rate variations, are the pricing determining the dollar and the whole exchange rate fluctuation is with the company or how does it work?

**Piyush Rathi:** I think if I understand your question correctly you would like to know how we price and exchange some situations into pricing?

**Vaibhav B:** Yes basically are your contracts are in US Dollar priced, which means basically whatever fluctuation that happens in exchange rate will affect the company’s profitability or does it work like that?

- Piyush Rathi:** Prices always determined by the market, different markets move in different directions.
- Chandrakant Rathi:** Exchange fluctuation is directly risk is on the company. We quote on dollars or the Euro number and then that is the way it goes on, but the exchange may keep on fluctuating based on its own methodology, so as you know in the last financial year the average dollar rate was 67 point something, this year it is 4% rupees stronger, so that is why we lost a number of in dollar terms even is good, but 4% that change is there already on our books.
- Vaibhav B:** Fair enough. So basically now I want to just understand that how long this 4% appreciation is going to affect us, how long this pricing will stay constant for our export business I mean to say when we get a chance to get when they will revise the prices, what is the cycle?
- P Rathi:** No, there is no such issue or possibility, earlier if you look at the trend for the last number of years rupee always depreciated against dollar by about 5%. Constantly kept on gaining, but last one year this has become reverse, so from Rs.67 it came to Rs.64 or something, but they know about the future, but we really cannot do anything much about it.
- Vaibhav B:** Fair enough. Sir whatever exports that we are currently doing this is under how many years of contract that we have?
- Chandrakant Rathi:** You have to understand our American business is totally American, so there is no risk in the dollar term business totally and the rest is about 10% business, which is the other geographies, which is subject to this kind of financial risk anyway.
- Vaibhav B:** Sir what I was trying to understand is that probably when we enter into a relationship with the customer for exports business we probably assume some kind of exchange rate to factor into our margin, which was probably the exchange rate that was prevailing at that point of time and then post that the fluctuation has happened in the exchange rate, so probably the profitability of that whole contract might get impacted till the time the contract expires that is what I just want to understand?
- Piyush Rathi:** Typically there are no such long term contracts. Typically we deal on a purchase order basis. If at all purchase order is there usually for just immediate supplies or at max it could be couple of months.
- Vaibhav B:** Got it. That answers my question. Again on the exports sales do we have distributed model or we directly supply to the ultimate user or customer?
- Piyush Rathi:** It depends on the basis. In some basis, we need to supply to distributors, in some businesses we supply directly to customers.
- Vaibhav B:** What would be the proportion in broad terms?

- Piyush Rathi:** It is usually favoured inside of end customers. Typically we supply directly to end customers and to distributors both.
- Vaibhav B:** One last question from my side. I was trying to assess the potential size of the export market and where I got stuck was that I was completely unaware of that in which product the company's enzymes are used, so can you just elaborate by giving some examples or something, which kind of product or which particular product or enzymes growth in exports market particularly?
- Piyush Rathi:** I will urge you to have a look at the website. All the different industries that we serve and the applications are mentioned on the website of the company.
- Vaibhav B:** Fair enough. Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.
- Amar Maurya:** Thanks a lot for the opportunity. Sir congratulations for a very good set of numbers. Sir my question is on the margin front, so Sir how I should look margin from here on because one thing is there that if I see your human nutraceutical segment on a nine-month basis the contribution of human nutraceutical segment has increased by almost 240 basis points and assuming that human nutraceutical is a high margin business despite that are we seeing that this is what is visible from the nine months probably, we will be short of by at least 200 or 250 basis points on a like-to-like margin versus FY2018 to FY2017, so any colour on that, is it just primarily because of the Evoxx or are we seeing some pricing pressure or are we seeing some cost-related issues in this?
- Chandrakant Rathi:** No you got it right Amar. It is predominantly due to Evoxx because as you know we had two acquisitions in the last one year and though both JC Biotech was with a very small margin when we acquire it was a little profitable company, but it was like no way at league at which we are and the loss has been the R&D company, so it is all loss making company. We knew I think we communicated very practically clearly that we knew that Evoxx is going to burn money because it is R&D capability, which you added for really 10-year horizon and not like on a quarter-to-quarter horizon.
- Amar Maurya:** Sir in this particular quarter what would be the loss from the Evoxx if you can share with us?
- Piyush Rathi:** I think it is about 45 million.
- Amar Maurya:** \$45 million right?
- Piyush Rathi:** Rs.45 million.
- Amar Maurya:** That is all from my side. If I have some followup I will come back.

- Moderator:** Thank you. The next question is from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.
- Abhinav Ganeshan:** Good evening Sir. Thanks for taking my question. Congrats on a great set of numbers. Sir just wanted some colour on the animal healthcare segment, we have seen some kind of improvement when I look at your Q3 numbers for 2018 do you think this trend will continue into Q4?
- Piyush Rathi:** Yes. It is an ongoing trend, so definitely we will see improvement.
- Abhinav Ganeshan:** Sir one more followup question from my side is that we were piloting some enzymes for some companies in Malaysia regarding palm oil, so have we found any success over there or how will it be?
- Piyush Rathi:** We expect commercial revenues in FY2020.
- Abhinav Ganeshan:** Fair enough Sir. Then wish you all the best for the future.
- Moderator:** Thank you. The next question is from the line of Vaibhav B from HNI Investment. Please go ahead.
- Vaibhav B:** Sir thanks for providing the followup opportunity. Sir I just want to understand the company from customer concentration point of view, so probably we have around 25% of sales and probably much larger share of profit coming from single customer, so how we are planning to diversify the customer base so that we can address the volatility in the profitability or the potential rate for closing our single customer?
- Chandrakant Rathi:** Actually as any company of our size keeps on growing intend to add lot of customers of that size in the near future. Right now revenue is about \$70 million and top customer is like \$10 million or \$11 million and that shows the customer concentration one customer being quite big, but we intend to add many more customers of buying between above \$5 million to \$10 million a year, so that is the way we are going to diversify our risk from such one customer. There is no risk actually, but we will have more bigger customer in our kitty because as we are growing our stature global is growing, so bigger and bigger customer would like to now buy from us, attract supplier to them now than what we were like 10 years ago or five years back.
- Vaibhav B:** Got it and what is the difference in EBITDA margin in our domestic revenue and export revenue, what would be the prominent difference?
- Piyush Rathi:** Honestly we never do such kind of geographical calculation, our business is very, very technology centric so we are always looking at higher profitability as a issue because we create solution for customer of ours, so overall margins are like you probably may not have seen such margin with any company in your horizon, so very high margin with 70% plus margins, so this is how we operate.

- Vaibhav B:** Got it and what is our inorganic growth strategy and what are the key strategic or financial considerations for an acquisition that we potentially look for?
- Chandrakant Rathi:** We have discussed that area earlier also and primarily because even there is a no such company of such nature with such a high gross margin available for acquisition, so we attain to take the cost of the company, which are available to us in attractive price and use our management and technological knowledge to turn it around and make more margin and grow our business also, increase geographical penetration as well as increase our product strength, increase our customer relationship, so we do that as a process.
- Vaibhav B:** Any kind of target breakeven or breakeven number of years or any kind of financial parameters that you always have in mind while doing the acquisition or it is mostly strategic in nature?
- Chandrakant Rathi:** Only strategic in nature.
- Vaibhav B:** I think that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Harshal Mehta from ICICI Direct. Please go ahead.
- Harshal Mehta:** Thanks for the opportunity. Sir, my question is on the nutraceutical side on the US, so any ballpark figure what you can give on the B2B, B2C split what we have there?
- Piyush Rathi:** It is about 90:10.
- Harshal Mehta:** Sir going forward, how we see our B2C growing over there?
- Piyush Rathi:** I think this will remain at least for the immediate future.
- Harshal Mehta:** Sir, can you provide me number for the LAP sales in nutraceuticals?
- Piyush Rathi:** LAP sales?
- Harshal Mehta:** Our top product?
- Piyush Rathi:** Our top product is doing about \$10 million in revenue.
- Harshal Mehta:** So basically on the US side what is our potential market, enzyme size so basically out of that 65 billion I think 200 million is the size of this product of which 11 million we are doing, but what would be our potential market out of that 65 billion?
- Piyush Rathi:** Out of the \$65 billion nutraceutical market the enzyme market at the active nutraceutical blends level is of the order of 250 million.

- Harshal Mehta:** Sir specifically in the animal business side, I think last year we were preparing for some 3X jump in the number, so what exactly are the challenges we are facing here, although we have a smaller base, any geography we are targeting?
- Piyush Rathi:** This is a global market and global market is more than a half billion dollars already. We are targeting geographical expansions, setting up distribution network and once the distributor network is in place and registrations are in place and basically functional.
- Harshal Mehta:** Sir, on the US corporate tax side any improvement we are seeing on the tax rate going forward?
- Piyush Rathi:** Yes, of course.
- Beni Prasad Rauka:** Yes, of course we will see. The tax rate at least you know we will be saving about 11.85%.
- Harshal Mehta:** Around 11.85%.
- Beni Prasad Rauka:** It is a reduction in tax rate as such, so overall if you see on the overall basis it will be a 30% saving in terms of tax.
- Harshal Mehta:** So, how much we are seeing on the blended effective tax for us?
- Beni Prasad Rauka:** That is what I am saying effectively we will be saving about 11.85%.
- Harshal Mehta:** Can you provide me serratiopeptidase sales in the quarter?
- Piyush Rathi:** Overall nine-month revenues are close to 710 million.
- Harshal Mehta:** 710 million rupee?
- Piyush Rathi:** Yes.
- Harshal Mehta:** Sir, R&D expense during the quarter?
- Piyush Rathi:** Rs.25 million.
- Harshal Mehta:** Sir, just one more split on pharma and nutraceuticals and human healthcare?
- Piyush Rathi:** No, I do not think we actually split that.
- Harshal Mehta:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.

**Amar Maurya:** Thanks for the opportunity. Sir, firstly on our yearly guidance of around 400 Crores kind of topline with 42% to 43% kind of margin do we stick to it even today?

**Piyush Rathi:** We see between Rs.380 to Rs.400 that is what we have shared as guidance and same thing will be happening EBITDA about 42% that is right.

**Amar Maurya:** Secondly Sir, now given that our tax rate shares is going to reduce slightly, so as a going forward what should be a steady state tax rate we should assume because I believe this whole year it would be around 32%, so is it when you are saying that 11% decline on an absolute basis so is it like something around 22% kind of tax rate we are expecting going forward?

**Beni Prasad Rauka:** Yes, just let me tell you about this. From the US side I think we will be saving about 11.85%, but if actively if you see on consolidated basis India effective tax rate is again 22.60 and I think after this particular change in US the rate will be, when you redo all the calculations, but probably 27.98 will be US and then India will be 22 point something, so I think above average of this we have to tax, about 25 to 26.

**Piyush Rathi:** About 25 to 26%

**Amar Maurya:** About 25% to 26% right?

**Chandrakant Rathi:** About 25% will be adequate for budgeting purpose.

**Amar Maurya:** Got that Sir. So that will be a good saving coming to the bottomline right?

**Piyush Rathi:** Absolutely.

**Amar Maurya:** Secondly Sir, what was the overall utilization level per se on a company level in this nine-month versus the nine-month last year?

**Piyush Rathi:** Average utilization in terms of?

**Amar Maurya:** Plant utilization level.

**Piyush Rathi:** Plant utilization could be around similar level?

**Amar Maurya:** Say 40% to 45%, what was the last year?

**Piyush Rathi:** Below 50%.

**Amar Maurya:** Lastly like you know Sir, now what is our strategy in Europe, I believe we did a small acquisition of Evoxx, which is more of R&D led acquisition, so finally if I see today why I am asking this to you because if I see today we are actually too heavy on US and India and Europe is a very big



market, so going forward in next one year or two years, what is our overall strategy for Europe to grow because we already did one GSEC position over there?

**Piyush Rathi:** Yes, it is ongoing process Amar, organic and inorganic both options will be used.

**Amar Maurya:** So, ideally because why I am asking this today the contribution from Europe is actually very, very negligible, so if I see from a two years perspective what is the kind of contribution do we expect from this geography to deliver given that your inorganic strategy is also on the place followed by the organic push, which we were doing for the animal healthcare vertical getting license and all those things, so how much, I mean what is the process there, are we actually nearing it to any kind of success in that kind of area?

**Piyush Rathi:** Yes, we should enter from high single digits into the lower double digits.

**Amar Maurya:** By two years?

**Piyush Rathi:** In two years' time.

**Amar Maurya:** This primarily would be led by the animal segment or human nutraceutical as well?

**Piyush Rathi:** Overall.

**Amar Maurya:** Overall you are saying, so the push will be from all side and Sir what is the early benefit you are getting from the Evoxx acquisition if you can mention few of the benefits probably on a clientele side or on the product side?

**Piyush Rathi:** The biggest benefit of Evoxx has been addition of certain technology platforms, I said missing in our overall portfolio previously or were present at a lower level and we have got high complementation from Evoxx.

**Amar Maurya:** So, like when we say we had added few technology platform, so is it going to yield more from the R&D benefit or more from the clientele side?

**Piyush Rathi:** Ultimately it has turned into revenue is not it, so with Evoxx now we are able to develop more products, so the pipeline will become much more stronger and then once we have more products obviously the business is also increasing because number of products will also, one is geographic and one is product expansion, so the product range will improve already broadening because of Evoxx.

**Amar Maurya:** So I believe when I have spoken to you last time, you had spoken that Evoxx is more of a probiotics and a new line of probably vertical for us, it is going to attract a newer kind of revenue, so is it happening right now or still we are in the pipeline stage where we are actually marketing or it is very early days for these kind of things to happen?

- Piyush Rathi:** There must be some misunderstanding. Evoxx is basically had a CRO model before and now it is fully integrated part of Advanced Enzymes and so what you see effectively is now our R&D budget going up from the Rs.8 to 10 odd Crores budget going up to about Rs.25 to 30 Crores annually. If you added more resources on the R&D side and overall R&D to sales ratio 3% to 4%, now that will grow to 5% to 6%. Now the project business, which is already a part of Evoxx business some amount of that will continue, which is basically strategic projects and more internal projects will be taken up. So Evoxx will basically be an R&D arm for Advanced Enzymes and of course already having sales in marketing platform for the European market.
- Amar Maurya:** But we do not got any meaningful addition of client because of the Evoxx, so it was just like a lot of R&D capability got added right?
- Piyush Rathi:** The same clientele to be converted for the product business.
- Amar Maurya:** Got that, so is there any visibility like early some low hanging fruits in Europe business?
- Piyush Rathi:** So we are already trying to leverage that that is why we see next year, by next year we should be about the higher single digits in terms of overall revenue split.
- Amar Maurya:** In the Europe business?
- Piyush Rathi:** Europe should contribute about higher single digits anywhere from 7% to 9%.
- Amar Maurya:** Got that. That is helpful. Thank you.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to the management for closing comments.
- Piyush Rathi:** Overall thank you so much for joining us today. It has been a very, very interesting quarter and of course all our comments in the past have got validated and we continue to maintain our guidance for the whole year, which is between Rs.380 and Rs.400 Crores with EBITDA margin in the early 40s around 42% and also PAT margin around 24% to 25%, so this is what we continue to see and we maintain our numbers.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Advanced Enzyme Technologies Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.