"Advanced Enzymes Q2 FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Advanced Enzymes Q2 FY-'17 Earning Conference Call hosted by ICICI Securities. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimit Shah from ICICI Securities. Thank you and over to you Mr. Shah.

Nimit Shah: Good Evening, Ladies and Gentlemen. Welcome to Advanced Enzymes Q2 FY-'17 Conference Call. Today, we have Mr. C L Rathi – M.D., CEO; Mr. V.L. Rathi -- Promoter Director; Mr. Piyush Rathi -- Chief Business Officer; Mr. Beni P Rauka -- Group CFO in the call from the management side.

Now, I would like to hand over the call to the management. Over to you, sir.

Management: Thank you, Nimit. So, welcome all to the highlight for the past quarter as well as the first half of the year:

The consolidated sales have gone up to Rs.90 crores, year-on-year increase of 28.9%, while the H1 numbers are Rs.185.3 crores whereas the year-on-year increase is 33.4%. The EBITDA has gone up to Rs.48 crores for this Q2, which is up about 74.5% from the same quarter last year and the number for this first half of this year is Rs.99 crores of EBITDA, which is up about 6.5%. The margins have shorter from 42.4 to 53.1 for Q2 and for H1 it is about 53%, again year-on-year increase of 1061 basis points. The consolidated net profit also has gone up to Rs.28.9 crores which is up about 99.8%, while the H1 number for this year is Rs.56.5 crores of PAT, which is up about 73.5% compared to H1 of last year. All in all, these are the numbers.

We open up the call for the questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Mr. Raj Mohan, an individual investor. Please go ahead.

Raj Mohan: My questions are, some recent studies on the global enzymes market have projected a higher growth at about say 8-9% due to the commonly known factors like high usage and SMB, increased awareness, etc., As you would be best placed with an on the ground assessment in this highly specialized and esoteric field, are you seeing growth accelerating as we speak and the next decade holding the possibility of higher growth than the erstwhile 6%? In this light, are we as a trend seeing each subsequent period of say 5-years seeing higher growth than the preceding period?

Management: Mr. Raj Mohan, thank you for joining this call and you seem to be very well studied about various aspects about Enzymes market. It is a Catch-22 type of situation like in Enzymes market, lot of innovation have been happening globally, so there is always a pressure on prices getting little lower every year to year, and at the same time with lower prices, more opportunities are coming also at the same time, a particular enzyme was available at say X value earlier, today it is at half of that price or something, then the market size expands to many more new applications, but the challenges are quite a lot because it is a highly technology intensive industry… huge challenges are there, and it is a completely new technology totally… 21st Century technology. So to grab those opportunities also is a big challenge. So I would not be able to comment how the global market will happen, but at the same time we as a company we see good growth possibilities for us and we continue to try and do better every day-by-day or every quarter-by-quarter we try and see how we improve our overall quality of our penetration in the market, our offering, our services, our prices, how they can be improved, that is what we keep on working on. I really cannot comment about other people because this is very technology-intensive industry, but yes, as a whole, this is a very positive upbeat mood, because everybody wants environmental-friendly, people want antibiotic free or safe medication, even in animal feed people do not want antibiotics they want very safe food being processed. So all these factors are going to help the Enzymes industry quite a lot.

Raj Mohan: Of the challenges you have indicated in the past, one of the challenges being difficulty in getting the right people in this technology-intensive and niche industry. Based on the current mix of 55 experienced professionals that you employ, do you think your opportunities for catering to your existing markets in the foreseeable future will be handled without too many challenges? As you expand into other emerging markets, do you feel you need to recruit more people with that culture orientation and that is when you would face some challenges and any internal strategies for surmounting these challenges along the lines of whether attractive local talent will be easier for Advanced Enzymes at its stage of evolution?

Management: Raj Mohan, it is always a very challenging daunting task and we do see challenges coming in, but at the same time we are capable also of inculcating our values, our systems, our transparencies that is why we became public also and we intend to help the people who join because we see the advantage of being transparent, advantage of being what you call a serving organization to everyone, helping organization to everybody, and that is what we are doing. So I think it will happen, we will have challenges, and at the same time we will also try and address them as they come along.

Raj Mohan: But Advanced Enzymes being one of the top few players in the industry, attracting talent should not be that difficult to you even at a global scale. Is my understanding right?

Management: Talent is always available, but at the same time grooming to your needs is a big challenge, because someone is groomed in a different way of working and our culture is quite cost-conscious culture, plus we would like you to know we are down to earth type of movement which is many times lot of people do not like it. Also, there are lot of people who are technologists but they do not understand the market realities because my customer do not pay me for my talent, they pay for a value, adding to value is a big challenge.

Raj Mohan: From 1% market share that you have stated, you have stated your intention of increasing it closer to double digit over the next 10-years, could you give us some granularity on whether this is driven by the ground realities, you see your capabilities and cost efficiencies getting more realized by the market which is continually helping you acquire new customers or will the larger appetite of your existing customers be the material contributor to your goal of reaching say a double digit market share over the next decade?

Management: It will be mix of that and also it will be mix of organic and inorganic growth, so those two together we will be working on, and that is how I think you must have seen the acquisition of JC Biotech was part of that strategy.

Moderator: Thank you. The next question is from the line of Ganesh Radha Krishna from Christine Portfolio. Please go ahead.

Ganesh R Krishna: I have a couple of questions: If I compare your Q2 with Q1 numbers, the sales have dropped by 5% approximately, but the raw material costs they are dropped by 40% from Rs.207 crores to Rs.128 crores, can you tell me the reason for it, why such a sharp drop in the raw material prices?

Management: The product mix is one, although the sale number has doubled, certain products which we get lot of higher margins, so our sales that way like we are conscious about what margins we generate. So we have been consistently giving efforts to increase or expand our sales of the products where we have better margins plus as R&D is only to get a new customer, but R&D also is deployed very well in our 2 lakhs container cost, try, reduce and change the new raw material, remove the costly raw materials in the production processes, try and improve the yields, try and improve overall process condition, time, etc., So all these aspects lay to that, it is not one single solution to the whole process.

Ganesh R Krishna: So usually what will be the kind of as a percentage the cost of raw materials to sales?

Management: It is very difficult because we are very complex company where lot of products are different kind of structure, because we cannot choose every time, the customer need is XYZ, and we may not be very competitive at that particular moment, first get the market and then try to improve the margins, sometimes becomes reverse, we have some products which is where we are very good and our margins are good and we try and push those products into market. So it is a very dicey, not a granular thing, all the time I cannot say that we are going to do this only.

Ganesh R Krishna: Similarly, if I see the other expenses, that has shot up from about Rs.102 crores to Rs.162 crores. Any specific reasons?

Management: Our IPO.

Ganesh R Krishna: Oh! Your IPO expenses I think it is about Rs.20 crores or so that has gone into it, is it?

Beni P Rauka: So this expenses increase is mainly because of the increase in our consumption of stores and spares, packing materials, power and fuel, and also like we have written up some amount of doubtful debt and also CSR expenses. So all put together there is increase in our expenses during this quarter as compared to the previous quarter.

Ganesh R Krishna: So there are some one-time expenses built into it or this is going to occur every quarter?

Beni P Rauka: There are some one-time expenses as well like CSR expenses is one, which is like we have already spent whatever we were supposed to spend for this year, that amount we have already incurred, and in addition to that we have also written off some bad debt amount, it is of course one-time expenses, and in addition to that there are some expenses which are kind of professional fees, so those are again kind of one-off expenses, and in addition to that like auditor fees this is like we appointed auditors during this second quarter. So the promotion net expenses in Q1 was not taken, so it is taken in Q2 only which is roughly about Rs.17 lakhs, so bad debts is about Rs.23 lakhs, CSR expenses is about Rs.37 lakhs and our packing material consumption is also about Rs.60 lakhs higher than our Q1 expenses and stores and spares again we have done the maintenance part of the plant, so because of that again it has gone up from Rs.67 lakhs to roughly Rs.1.41 crores. So all put together the expenses compared to Q1 it is higher.

Ganesh R Krishna: Yes, it is substantially higher by about Rs.60 crores. Am I right?

Management: Rs.6 crores.

Ganesh R Krishna: Is there any seasonality in your business in terms of quarters, some quarters are better than other quarters, any reason?

Management: Yes, actually because we have a mix of different-different industries working with us and in some industries there is some seasonality, in some industry there is like you say Animal Feed industry in India is like during Shravan month, there is not much of sale and some time more sale and again winter is always healthy, so more sale, and then pharma also got little bit of… each industry has their own seasonality. But because we are complete composite mix and our export also are different, so based on that normally we do not experience too much of ups and downs.

Management: The question is relevant, you will see ups and down from quarter-to-quarter and we have seasonality.

Ganesh R Krishna: Could you just tell me about your dividend policy?

Management: We are a dividend paying company for last may be many years… I do not know 18-20-years, we consistently look for paying some dividends to our shareholders. What we wanted to do is generate our profits to grow our company. So we are basically a growth company. You have to look into that particular point of angle and not a dividend paying company. However, as I said, we will be continuously looking at increasing the shareholders value along with getting some value in form of cash by paying the dividends every year for sure.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Just a couple of questions: Taking up from the previous participant, he is right, in terms of the volatility that he has seen in the gross margin, especially what you reported in your June '16 quarter and your September '15 quarter versus your September '16 quarter, your September '16 quarter the gross margins have just shot off the roof and I understand your point that there is a difference in the product mix, what products you sell every quarter. So I just wanted to get more granularity into that. So if I were to put the question slightly more granularly I would ask you, is there any one significant product that has given you like a large chunk of your revenues in this quarter September ' 16?

Management: There are always some products which give you very good returns. One thing which you need to keep in mind is that anything which we produce very efficiently and very cost effectively will always give us a better margin because we are a totally integrated company and any time we have to acquire or do some sort of engineering so to speak then our margins relatively goes down. So in this second quarter we are fortunate enough to have sales in the product which was basically produced from our manufacturing plants. There are couple of products which we are extremely good at -- one of them is LAB or Lactobacillus, some of the products which we sold in the product blends which we sold into US markets which were producing extremely good profitability for us. So it is always a product mix. We try to get away from a singular product sales to more of a niche specialized product markets.

Aditya Khemka: Whatever you say, I have understood that since the raise of our IPO, I think that has been our consistent commentary which is always very comforting to hear. But from the June '16 to September '16 quarter, your some high margin product or some group of high margin products you have sold in very huge quantity in this quarter which you did not sell almost anything in June '16 quarter. So just wanted some granular detail what that product might be, #1? #2, in your view, what is the sustainability of the sales of this product now moving ahead?

Management: The issue is there is no such thing as you can say continuously these companies are going to keep on buying the same product month-after-month, but we see reasonable liquid prospects of continuing with that product mix at this point in time.

Aditya Khemka: What brought about this change? So if I may ask you, say do you think your gross margins in this quarter is what you will do going ahead or the gross margins that you did in 30th June 2016 quarter, do you think those are the more realistic gross margins that you will do going ahead?

Management: There are some quarters which are going to be unusually good margins, this is one of those quarters. Sustaining this kind of high margins are always difficult as you know.

Aditya Khemka: So it is more going to be like your June '16 margins which are going to be more sustainable, right?

Management: More sustainable rate is actually what we are getting before.

Management: Khemka ji, our last year was 47 point some percentage as a whole year. If you observe every quarter-to-quarter we have been trying and improving our margins because we see when we go forward into larger industrial type of businesses, bigger number of sales number, there the margins would be lower. Nutrition business always gives us better margins when we integrate totally… integrated product line, and the industrial margin businesses which like other companies are more involved there, their margins you already know, you have those data there. We as a whole as a composite company we like to maintain (+45%) margin level that is what is our attempt is there all time, and that will be our guideline for long-term. Short-term wise what are the numbers we have given, even my brother right now told you that the management is trying to have better margins, that is it.

Aditya Khemka: Mr. Rauka, just on the depreciation expense, what led to the decline in depreciation expense from June 2016 to September 2016?

Beni P Rauka: Only Rs.30 lakhs is only the difference in Q1 to Q2. What we have done is some amount of depreciation we have set and I think some correction is carried out in this particular quarter.

Aditya Khemka: Rauka, the other expenses, I heard you explaining to the previous participant the chunk, so out of the Rs.6 crores that has increased quarter-on-quarter, how much is for the IPO expenses?

Beni P Rauka: No, IPO expenses is not part of it, in fact, we have adjusted against our securities premium account, in fact, this increase if you want I have the details of all the expenses which has gone up as compared to the Q1, that details I can provide you if you like to make a note of it, it is good, otherwise I can share with you.

Aditya Khemka: We will e-mail you, you can provide it in e-mail, let us not waste time on the call, I think that will be high appreciated. Lastly, when I come on to your balance sheet, also, a couple of just observations indirectly if I may, so from the IPO, net of all expenses, how much is the company make out of the IPO?

Beni P Rauka: It is Rs.50 crores average, and out of that about Rs.3 crores is towards our IPO expenses.

Aditya Khemka: Out of the Rs.47 crores the company got, I can see that the short-term borrowing has gone down by some Rs.22 crores and your long-term borrowing has gone down by Rs.25 crores. So if I put the two numbers together, coincidentally it also comes to exactly Rs.47 crores. Now, my question is this, between March and September '16 quarter, our debt has reduced by Rs.47 crores and the company got Rs.47 crores from the IPO. Other than that your cash balance has gone up by Rs.13 crores from Rs.26 crores to Rs.39 crores, right, whereas the profit you have done is about Rs.658 crores. So, are we investing somewhere so the balance money which should be generated through operations, so I see there is increase in goodwill on consolidation by Rs.50 crores, have we purchased? I know that JV acquisition that we announced I hope money has not been paid for the Biotech acquisition?

Beni P Rauka: Yes. So far as you rightly mentioned that the debt has decreased substantially Rs.47 crores and internal accruals as far as concerned that has been utilized for the purpose of #1 the change in the working capital and then in addition to that the reduction in our short-term borrowings, working capital utilization and we have already paid our long-term loans as well as some amount was sitting into the current liabilities. That amount has in toto we have paid, so our debt has reduced by Rs.40 crores, we had some debts on our US company so that entire debt is reduced now substantially.

Aditya Khemka: So you basically paid off that loan?

Management: Almost debt-free company now.

Beni P Rauka: Current liabilities were about Rs.59 crores as on 31st March '16, now if you see it is only about Rs.21 crores.

Aditya Khemka: Back to Mr. V.L. Rathi, just wanted some clarification on the OTC diet supplement product that was doing well in US. Can I get the contribution of that product in this quarter?

V.L. Rathi: Last year it was 19%, this year it has gone to 35%.

Aditya Khemka: This 35% is for the first half?

Beni P Rauka: Compared to the first half of previous year I am talking about.

Aditya Khemka: 2Q Vs 1Q, could you provide that as well, that will help me understand your gross margins?

Management: In general you can contribute high margins also in that particular area.

Aditya Khemka: Yes, sir, exactly, so if Rs.12 lakhs like let us say 10% in 1Q and 50% in 2Q, then maybe your gross margin gets expanded. I just want to understand how different was the contribution of that product in Q1 and Q2?

Management: You are in the call, so we will find that numbers and get back.

Aditya Khemka: Of our plants, where do we stand today in terms of total capacity utilization?

Management: Almost same side, nothing much changed yet, 45% around, because we do not exactly calculate that, that is not the way we check on it, plus also like we have been using the opportunity to try and that is where our Mr. Rauka has explained to you our expenses on plant maintenance has gone up because we used that time to improve the plant quality and that way we will be able to later part contribute in better yields, better margins. So we are using every opportunity to improve upon so that we can in future address those issues.

Aditya Khemka: Mr. Rauka missed to respond to that, on the goodwill and consolidation, there is Rs.50 crores increase in goodwill and consolidation from March to June quarter. What was this on account of?

Beni P Rauka: Yes, this being a US company non-integral operation, so what happened earlier we have provided the goodwill value on the basis of historical value, when we did the acquisition of that particular company, we used the same foreign currency rate when the acquisition was done. But as per accounting standard now we have been advised that we have to restate as on the day when you are valuing that particular goodwill, so like 30th September 2016 we had to revaluate so that restatement has been done which is as per the current prevailing accounting standard, because of that this Rs.50 crores goodwill has gone up.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: I think you said that in the first half the Nutritional product contributed 19% of revenues in FY16 and in FY17 it contributed 35% of the first half revenues. Ex of that nutritional product, the growth for the first half of FY17 Vs FY16 would then be just 7%, is that understanding right or am I missing some numbers…top-1 product?

Beni P Rauka: Top-1 product has gone up from 19% to 35%.

Management: If you exclude something growth X top-1 product is in a single digit versus 33% growth for the company.

Dheeresh Pathak: So compared to last year this product has gone up about 150% in this financial year.

Management: If you exclude the top-1 product, then the growth is only 7%. So all the growth seems to be coming from the top-1 product?

Management: One of the major product contribution is but every area has been growing, say good growth from all the segments, not just one product.

Dheeresh Pathak:	I am just saying that if you work out the numbers, so ex of the one product, for first half FY16 revenues will be Rs.112 crores and in FY17 it would be Rs.120 crores. Did I miss the number or are these numbers correct?
Management:	I think those numbers again we recalculate and come back to you because we have not done that calculation.
Moderator:	Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.
S Vishwanathan:	What would be the R&D expenses for the first half and what is your guidance for the entire year and next year also?
Beni P Rauka:	R&D expenses for the first half is about 48 million as compared to 41 million of the previous year first half.
S Vishwanathan:	Do you have a fixed budget for the R&D as a percentage of sales or an absolute amount?
Management:	No, we do not do that kind of, we never did that way, we always look out for what best we can do and accordingly we provide the money.
S Vishwanathan:	How many R&D projects are live as of now?
Management:	I think it is a good question. We never calculated. I think Piyush can be able to give you some idea on that how many projects are available.
Piyush Rathi:	About 4 to 5 actively pursued projects are usually live at any given point in time.
S Vishwanathan:	To your previous participant’s question, you had mentioned that there could be some seasonality in the business. So first half is a good quarter or a normal quarter? So we will figure it out in relation with the second half?
Piyush Rathi:	If you look at our past history we always have annual growth and the sale has been around 20% in a rupee number and dollar we look at around 14-15%. So that is the guidance which we have given always all the time and that is what we maintain today also.
S Vishwanathan:	Quarter-on-quarter seasonality could be there, but for the year as a whole you …?
Piyush Rathi:	Year as a whole, it is minimum possible.
S Vishwanathan:	The new products launches that you planned for this second half and also next year…?

Piyush Rathi: Yes, there are some new launches are in plan, but I cannot today comment till we have launched it and then we will give you the appropriate declaration or the news to the exchange and other people also when we launch it.

S Vishwanathan: Can we assume the growth whatever you have budgeted and guided, so more growth of it is going to come from the existing business more growth in our new product launches?

Piyush Rathi: In our business, always the existing product only gives more growth on balance sheet and the new products when we launch they give us future opportunity to continue on the growth path.

S Vishwanathan: For the next two years, irrespective of the success of your current R&D projects or the products you are proposing to launch, you are hopeful of maintaining the growth rate given your current profile itself?

Piyush Rathi: Earlier track record would continue, should not be problem for next 2-3-years.

Moderator: Thank you. The next question is from the line of Mahaviram from Metro Investment. Please go ahead.

Mahaviram: My question is this quarter's sales is down by about 5% compared to the first quarter. May I know what is the reason please?

Management: Like as we explained to you because our customers they have some time their own seasonality or their own like buying pattern and based on that it happens because certain client or some customers or some product may not move for the particular quarter.

Mahaviram: Now, even though this quarter is more or less flat or slightly down. Can you just guide me what can be the annual revenue growth for this year?

Management: That is what we expect to try and bring it around maybe 25% growth as a whole a year. So that is a good way to go forward and we try and see whether we can maintain this growth rate.

Mahaviram: Secondly, we will be investing in that JB Chemicals 70% capital, you said you will be closing by around December or so.

Management: Yes, it is on the track right now and we will expect to close it before December end.

Mahaviram: So maybe the fourth quarter the revenue and profit is going to be amalgamated figures?

Management: Correct, these three quarters is without JC Biotech and then the fourth quarter we will have JC Biotech?

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

Pulkit Singhal: My question is to Mr. V.L. Rathi. Just trying to because we have less understanding again of the Nutraceutical market and then yet again first half we have almost $10 million contribution from this blend that you have probably in the Digestive space. Can you give us some sense of is that kind of stabilized, do you see more potential for growth out there because my very limited understanding was that Neutraceutical market itself is not more than $200-300 million and to that extent it is already a decent market share in that market?

V.L. Rathi: If that particular product, the growth is coming to where it should grow, I do not see continuous that kind of growth happening that rapidly in that particular product; however, the good part in our business is that we see a growth in all the segments, it may not be as rapid as sometimes one product or two products or three products but we see a good set of numbers coming from all the sectors.

Pulkit Singhal: So we do expect still some amount of growth at least in the Nutrition side?

V.L. Rathi: Yes, Nutrition side is our major market segment there.

Management: There are many new nutritional areas even like for example, that allergy was not so well known, but now with our product line, there is a huge demand for such kind of new allergy alleviating enzymes and we offer such multiple allergy alleviating enzymes as a solution to people who are facing allergy products. Those are the areas which are opening globally, it is not just only US but also that is happening everywhere in the world. We see growth such in Nutrition market. Lot of possibilities of growing.

V.L. Rathi: I also tell you one thing is that we are facing lot of challenges also with the new government regulations coming into US market and there is a great set of requirements are imposed upon all the companies, everybody is very steadily looking at various different aspects from the reliable declarations from their product declarations, from their various different requirements from the regulatory point of view. So it is a very challenging market at this point in time in US.

Pulkit Singhal: Piyush, on Animal Nutrition side, what is the kind of growth you see in the first half, how are you seeing this phase develop, I think we were slightly more optimistic on exports being bigger, so can you tell us bit more about that?

Piyush Rathi: Yes, we have expanded our sales to newer geographies in this half and basically we were targeting for almost 3x jump because of our smaller base in international revenues from Animal Feed business, we were targeting 3x number this year and we are on track towards achieving that number.

Pulkit Singhal: So is it the domestic side that has not really grown as much?

Piyush Rathi: Yes, domestic Animal Feed business for this half has been flat.

Pulkit Singhal: Is that seasonality or is there something which we should be worried about?

Piyush Rathi: Credit exposure is one of the major reasons and that is why this half also we have taken some bad debt write-down as well. It is a highly profitable segment yet it is a highly risky segment as well. We have lot of customers. If there is some kind of an epidemic or kind of provider or something like that, then the industry takes a downturn.

Moderator: Thank you. The next question is from the line of Prashant Karwabi from Axis Capital. Please go ahead.

Prashant Karwabi: Sir, I have three questions: #1, Seasonally speaking, whether H2 will be stronger than H1 in your experience? #2 is what is the extent of one-off expense items in Q2 numbers, for example, you just mentioned that you have taken some bad debt provisions, so probably that may not repeat going forward. #3 and lastly, when can we see JC Biotech consolidating into our numbers?

V.L. Rathi: Let me tell you the last question first; JC's results will be showing into the last quarter of our years, so from January quarter so to speak. Second quarter is always stronger than the first quarter. You have to split into two half – the second half is better than the first half, usually when we see first three months or third quarter is somewhat slow down in our Neutraceutical market in US because of the various different holidays and all that sort of thing. Our last quarter is always better than the third quarter.

Prashant Karwabi: But H2 typically is stronger than H1, right?

V.L. Rathi: Typically, yes.

Prashant Karwabi: Lastly, the one-off expenses in H1?

Management: If you look at our last year balance sheet, our H1 profit was Rs.33 crores and our H2 profit was Rs.44 crores. So that range has been there all the time like always the second quarter has done better, but let us see how this happens this year.

Beni P Rauka: One-off item is about Rs.2.82 crores.

Prashant Karwabi: If these two were not there, then the profitability would have increased by that amount?

Beni P Rauka: Right.

Moderator: Thank you. The next question is from the line of Sneha Palreja from MB Global. Please go ahead.

Sneha Palreja: Sir, my question was related to if at all you can mention the segmental growth numbers, how have we done in Nutraceutical, Animal Feed as well as Processing, if not that, maybe the proportion versus this year compared to last year?

Management: The proportion is slightly 1% higher. So Nutrition, we have done about 88% this half and 12% is our Bioprocessing revenue, Animal Feed proportion would be the same about 12-13% of the total revenue.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: Sir, a couple of questions: One is that increasing dependency on a single product that top product is right now contributing 35% of the revenues as one earlier participant from Goldman asked this question. Now, it means that in first half we have done roughly Rs.65 crores of revenue from this product itself. I just want to know what is the maximum potential you see from this product? Second, though we generally talk about 25% sort of growth but we can see that large growth is definitely driven by the single product only. So how are you addressing the issue of a single product dependence?

V.L. Rathi: What you said is very correct and that is why overall when you look at it, what we see is growth in all our other segment also. Obviously, we wanted to expand our growth into multiple sectors so that it will be more growth driven which we are already at this point in time. We are very mindful that product growth can slow down as you go forward.

Rohan Gupta: Sir, what can be the maximum potential of this product, in first half it has done roughly Rs.65 crores, so if I annualize that roughly Rs.130-150 crores, you are already clocking that run rate?

V.L. Rathi: This is not a very good analogies. Lot of times what happened is customers can estimate their sales based upon the past or future expectations and they buy a lot of products and it may or may not occur as well their estimates.

Rohan Gupta: But, you are confident that if not these products, the growth will come from the other products in near-term?

V.L. Rathi: Yes, we are confident.

Rohan Gupta: Margin wise also, other products share the similar margin profile?

V.L. Rathi: Yes, similar margin profile. That is why we can continue to have this kind of higher margins overall but obviously this quarter has an exceptional margins which is not necessarily sustainable on a long range.

Rohan Gupta: Second question is, you just mentioned the challenges in the regulatory environment which is changing in the US with the new government. So under that, do you also need to go with a lot of regulatory changes in the current product portfolio or filing for the new products has become tougher?

V.L. Rathi: No, it is not that we have to do anything; however, there is a lot of shake-ups or there are a lot of documentations are there, lot of lab expenses are there, all regulatory expenses goes up and it takes lot of time, people are very careful.

Rohan Gupta: The regulatory expenses goes up for you as well as for customers also?

V.L. Rathi: Yes, absolutely.

Rohan Gupta: Will that lead to some margin pressure?

V.L. Rathi: I do not think that creates margin pressure but sales of course create margin pressure because if the sales slows down then there is of course margin pressure.

Rohan Gupta: Because if I just critically analyze your margin, on a consol number, definitely you have 53% margin but standalone margins are 32%. So definitely the subsidiary which is mainly in US is enjoying almost 70% margins. So what I am worried about that is there any pressure or any changes in this margin profile can be there in a subsidiary company?

V.L. Rathi: As I said, this is always a balancing act of growth and margins as you know it. You try to sustain more and more high margin-related products; however, we are very mindful of developing our growth into the area where there are high sets of margins rather than singular products.

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

Sudhir Guntupalli: My question is that why is there a lot of volatility or fluctuation in the tax for example last year in this quarter the tax rate is 19% and this year it has gone up to 35% and what is the effective tax rate going forward or normalized tax rate going forward?

V.L. Rathi: The tax side of it let us take a look at what numbers you are talking about but keep in mind that US taxes are pretty high compared to Indian taxes. So whenever there is a high margin of profits in US, our tax rates are always going up.

Beni P Rauka: Indian side if you look at it what is happening, now the incentive which was like in case of the SEZ, earlier we used to get say 100% tax exemption in respect of the profits from the SEZ, now it has gone down 50% and apart from that even in case of R&D expenses also, there are some changes. So all put together, the effective rate is going up now.

Sudhir Guntupalli: So can we expect this to be the normalized tax rate going forward around 34-35%?

Beni P Rauka: Right.

Sudhir Guntupalli: In terms of sales growth, when there was an issue of Overzymes downgrading their guidance, Mr. Rathi has appeared on CNBC and he has given 30% sales growth guidance for the full year, now that you have done very well in the first half itself, and typically H2 will be seasonally better than H1, now do you see any room for increase for sales growth guidance for FY17 and FY18?

V.L. Rathi: Sudhir, if I am not mistaken, he has given sales growth of about 20% roughly, yes, the growth rate in the margins PAT rate we have talked about 30% growth, just want to correct you on that.

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

Jajati Mohapatra: Recently, the next year government in US will change and I heard from news that the corporate tax currently which is almost around 35% has come down to around 20%. So that will definitely add to your profitability in a US company?

V.L. Rathi: No question about it if that happens. US government is a little bit of different than India. It is not up to the president but hopefully this time it is all republican and republican president. So whatever that new president decides and if congress agrees …it is a long drawn process, but if tax rates come down in US, obviously it will be very positive for our company.

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

Raj Mohan: I had one follow up question to Mr. V.L. Rathi. The big players like BASF, Novozymes, have shown inclination to collaborate by acquiring niche technologies in early development in the enzyme space. Have you in the past seen interest from these players in your company?

V.L. Rathi: Yes, we did.

Management: We always got offer from them, no issue about that.

Moderator: Thank you. Since that was the last question, I hand the floor over to the management for their closing comments. Over to you.

V.L. Rathi: Thank you, gentlemen and ladies for participating this news conference with us after our first half results. We are very pleased and happy to share those results with every one of you. We have a good growth momentum and we continue to see that this company grows well on a sustainable basis. So we really appreciate your support for last 3-4-months and look forward to your constructive comments/suggestions/ideas and your participation in our company.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.