



“Advanced Enzyme Technologies Limited 3QFY17 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2017 Earnings Conference Call of Advanced Enzyme Technologies Limited, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. I now hand the conference over to Mr. Prashant Tarwadi of Axis Capital. Thank you and over to you Sir!

Prashant Tarwadi: Good afternoon to all. On behalf of Axis Capital, I welcome all participants on the con-call of Advanced Enzyme Technologies Limited. Today we have with us Mr. Chandrakant Rathi - Managing Director, Mr. Piyush Rathi - Chief Business Officer and Mr. Beni Prasad Rauka – Group Financial Officer. They will start with overview of the company performance and then later we can switch to question and answer session. Thank you and over to you Sir!

Chandrakant Rathi: Welcome all for this conference call. This is C.L Rathi here. I thank you all for joining us. Our nine monthly results are 15% growth in the sale. We finished Rs.2453 million against earlier of Rs.2133 million in the earlier year.

Our consolidated EBITDA has grown to Rs.1180 million from Rs.980 million in the earlier year stand about 20.4% growth and our profit has grown to Rs.70.85 Crores against 52.45 Crores in the earlier year by 35.1%.

The other details are there in this month last year’s quarter. The company is now expanding into number of new avenues. We already got patent on our palm oil extraction. We got the Indonesian patent this last quarter. We also are now launching into the highest enzyme market called detergent enzymes, so these are the two new areas, exciting areas for growth opportunities for our company in the coming years. We are open to take your questions if you wish to anything more.

Coming to the one issue which probably everybody would like to know while there has been dip in the sale in the last quarter compared to earlier quarters basically because our largest customer in the US who last year bought goods worth 72 Crores from us this year they already purchased in the first six months, they purchased 65 Crores worth of goods. Last quarter they realized that there is excess inventory lying with them, so they refrain from buying in the last quarter and started re-buying in this quarter.

That much because they already had over purchased the quantity and they are over judged. It was mistake on their marketing department part to project some very haphazard growth numbers. So, they overbought the quantity and that is why when you look at the earlier six month number looks very high growth in profitability, which is not the normal way in which our company normally grows, but when the customer wanted more quantity we gave them and then they

realize the mistake and they came back said sorry, we already have excess inventory, now this quarter onwards they started again re-buying it.

That resulted into little lower number in the last quarter, but overall when you look at the nine monthly performances it is a very good performance.

Also one more news I would like to give is we are having in Institutional Investor Day on March 3, 2017 which will be held at our Indore factory which is the state-of-the-art plant, so we invite all the institutional investors, requested to join there so that you can see the state-of-the-art plant and also will be able to explain the various type of work which we have been carrying out there, so it is a good opportunity. I welcome you all to join there. So, you can block your date, March 3, 2017 at Indore. Now I am open to any questions you may have.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Pritesh Chheda from Lucky Investment Mangers. Please go ahead.

Pritesh Chheda: Sir you had a specific program, which started in Q4 of last year on a new enzyme and supply. If you recall the numbers were hitting about 80 Crores to 90 Crores per quarter, we still could not understand the extent of drop which you have seen this quarter in the revenue line that is one question? Second question even the gross margins have contracted, if you could give some more knowledge or light on the current quarter performance and second how do you see this panning out over the next one year?

Chandrakant Rathi: Thank you so much. Actually it is only that one customer who overbought and that is why the numbers would got skewed because they suddenly bought because as you know we are a biotech company where we have very high margin business and our other expenses are more or less very static like same number quarter-to-quarter. Now when you have a low number sale, then you will see all number changing and when you have too much higher sale, again you see too much variation there. Otherwise when look at from year-to-year perspective what we have been communicating right from the day 1 to all the investors that listen, this is a very steady business, very, very sticky business. Our customers are very, very sticky, but because of B2B customer sometimes they do make error in their own projection.

Pritesh Chheda: So does it mean that that customer was contributing at the rate of 30 Crores per quarter and he contributed nothing in this quarter?

Chandrakant Rathi: Exactly, you rightly got it dot. First six months they bought 65 Crores worth of goods and then last quarter they did not buy even one single gram.

Pritesh Chheda: Okay. Does that customer and the product..?

Chandrakant Rathi: Now they started re-buying from this quarter because excess they bought in the first two quarters.

- Pritesh Chheda:** Sir, how frequently this has happened with you in the past 10 years?
- Chandrakant Rathi:** It never happened in the past because they were launching a product into a new territory which they were estimating and people normally as you know in pharmaceutical industry or a B2C business while launching they want to take excess inventory with them and they launch the product. So they went into a new territory and they were expecting lot more growth and when it did not happen they reduced the buying for the only one quarter, then again now in the December they placed the order with us.
- Pritesh Chheda:** So, such type of incidence has never happened with your company history in the past 10 years?
- Chandrakant Rathi:** The past six years I think. This company is in buying from us for the past six years.
- Pritesh Chheda:** Let us say if you keep this company aside, as a nature of the business, this type of incident has never happened, with any customer, any product line for the past six to ten years?
- Chandrakant Rathi:** Minor variation happens because they are all B2B customers and as you know even in Indian pharma or even in the other parts also they have their own promotion cycles, so our Q3 and Q2 is always little lower and our Q1 and Q4 are always little higher compared to the all four that has been trend over number of years.
- Pritesh Chheda:** Lastly I just want to check if you could give us the progress if any on the new enzyme programmes and the growth that you look at overall for the company over the next two years?
- Chandrakant Rathi:** As a process we generally develop about more than 4 to 5 new molecules every year from our R&D, which has been going on, so this is a consistent programme. We added number of product lines of new molecules in our business already. Now as you already know that the last quarter we already bought JC Biotech so that is another major milestone happened in the company's history which will give, the profitability would improve or the sale number will improve in the coming quarter, the acquisition which happened with JC Biotech.
- Pritesh Chheda:** Can you give your growth focus for the next two years on the revenue side?
- Chandrakant Rathi:** Actually I gave the normal thought you should look at revenues at about 15% to 20% on the topline and between 25% to 30% on bottomline.
- Pritesh Chheda:** This is lower than what you have grown for the last 10 years?
- Chandrakant Rathi:** Not lower. This is what has been our growth rate all the last 25 to 30 years since our existence.
- Pritesh Chheda:** I think the number is higher than this. Okay no problem. Thank you very much.
- Chandrakant Rathi:** Will grow better, you do not worry about that.

- Pritesh Chheda:** You have grown at 25% CAGR over the last 10 years.
- Chandrakant Rathi:** The similar thing or little more is possible.
- Pritesh Chheda:** Revenue CAGR?
- Chandrakant Rathi:** Revenue I do not look at. We normally look at profitably honestly.
- Pritesh Chheda:** Okay. Thank you very much Sir.
- Moderator:** Thank you very much. Next question comes from the line of Sneha Talreja from Emkay Global. Please go ahead.
- Sneha Talreja:** Hello Sir. Good evening. Thank you for taking my question. This is Sneha from Emkay. Firstly my question was on what was the product contribution in last quarter, I mean Q2FY17?
- Chandrakant Rathi:** About which product Sneha.
- Sneha Talreja:** Top product Sir.
- Chandrakant Rathi:** The last quarter was zero. Q2 was 28 Crores.
- Sneha Talreja:** 28 Crores. Sir, given that this product has now started giving revenues again where do you see the contribution coming in the current quarter and next year what is your visibility in terms of this top product?
- Chandrakant Rathi:** Our visibility has always been on our customer's visibility. They have their annual conferences of their own. They come back and they say yes, this is possible because our business is very sticky and biological product we cannot produce overnight. So, they know that. Normally they gave us about the quarterly projection. They do not give us one yearly projection. So we are unable normally to project anything on a yearly basis because it is not the visibility, which my customers have.
- Sneha Talreja:** Okay. Sir, what is the visibility for this quarter if I may ask?
- Chandrakant Rathi:** We are expecting somewhere around 80 Crores on topline. Based on that the numbers will finally fall down.
- Sneha Talreja:** So 80 Crores only from this product.
- Chandrakant Rathi:** No, total as a company.

Sneha Talreja: As a company, so, Sir are you expecting this product to again start contributing somewhere about 25% to 30% of your topline?

Chandrakant Rathi: Last year it was 24% of total overall topline this single product. This year also it should be around that number.

Sneha Talreja: It should be around 25% to 30%.

Chandrakant Rathi: May be 23%, 25% like few percentage here and there.

Sneha Talreja: Okay. Sir, you have also been mentioning about lot of new products that you are expected to launch like you just said about palm oil extraction. When can we see something coming out from those sorts of products?

Chandrakant Rathi: Actually we already have shipped the first container load of enzyme to take the trials and we expect some very good movement in the next financial year.

Sneha Talreja: Sir, some number if you may say, because you have definitely shared a lot of opportunity and how big the size of palm oil extraction industry is, but if you may through some numbers that how much of revenues can be generated?

Chandrakant Rathi: Sneha, any new industry, it is very difficult to judge because the buying patterns are not established, so we as a policy only where the buying patterns are completely established we give a number, otherwise it is a haphazard we are going forward, because the whole stabilization happens and we are technology company, we are not banking product company or something. In early starting stages there could be number of difficulties which are there to be resolved then commercial line to be setup because suddenly no customer like to change the whole process right away. So, they do take some plant trials then there could be correction thereafter because they need a certain kind of modification to the existing processes or their own setup and they do take certain time. So, many times that could be depending on the management of that company. They may do it very quickly. They may decide to do it little later. So, we are unable to predict honestly how the sale number will be coming out, but being the similar like we are doing today in detergent enzyme now many companies may look at launching only a new product or they may look at modifying their existing product, it is a management call of each company. So, we are unable to predict unless the data is established properly.

Sneha Talreja: Okay. Sir, on the topline front what you are estimating it somewhere about 25% or may be 15% to 20% growth in the coming years including all these new product launches that you are planning?

Chandrakant Rathi: Correct.

Sneha Talreja: Okay. Sir, one last question from my side was what was the contribution of JC Biotech in the current quarter?

Chandrakant Rathi: Last year just we bought it, so it is only; 38 million is the last month.

Sneha Talreja: 38 million is the last month on revenue front and what will be EBITDA Sir. It will be similar margin of about 19% to 20%, which JC was making?

Chandrakant Rathi: I think similar EBITDA margin, 25% for the last month.

Sneha Talreja: So the margins have already started seeing improvement, which you will be talking about?

Chandrakant Rathi: Yes, it would happen positively Sneha because as you know we have very huge long experience of number of years and our team has started working with them and vice versa, so it will have huge advantage in near future.

Sneha Talreja: Right Sir. Sir, thank you so much. I will come back in the queue.

Moderator: Thank you very much. We have the next question from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead Sir.

Ganesh Radhakrishnan: Thank you for the opportunity. Couple of data points Sir. You said that one of the customers has overbought the product in Q2 and that is why they did not buy it in Q3?

Chandrakant Rathi: Q1 and Q2 they bought in two quarters lot of quantity. They bought 65 Crores worth of product against their previous year buying was only 72 Crores.

Ganesh Radhakrishnan: So, 62 Crores in the first half.

Chandrakant Rathi: 65 Crores in first two quarters.

Ganesh Radhakrishnan: Okay. So, typically how much do they contribute to your annual sales?

Chandrakant Rathi: Last year, they were almost 24.5% about total sales, a single customer.

Ganesh Radhakrishnan: Okay. Can you explain to me, you said the cost always remained the same independent of the sales, can you explain to me why do the raw material and the other costs remain the same?

Chandrakant Rathi: Raw material no, raw material is the variable. If you look at our operating margins are almost 69% to 70%, gross margins, which is variable. So, variable costs are very small and others are all like people who are employed, plants do operate nonstop 24 hours, so our boilers are working, various other people are working, everything is working. So, depending on the only variable is now the material cost, raw material cost. That is a very highly profitable business, so we have to

keep that in the process. So that is how then the topline changes, you will see different number, when topline increases, we will suddenly see very large, profit coming to the bottom.

Ganesh Radhakrishnan: Okay, but where do you book the R&D expenses?

Chandrakant Rathi: It is part of our expense structure. Most of the items expensed out.

Ganesh Radhakrishnan: Expensed out under other expenses?

Beni Prasad Rauka: These are research and development expenses, so we provide you separate disclosure in our annual reports, which is about I, think 6% of our sales on standalone basis.

Ganesh Radhakrishnan: So, it is getting reflected in P&L.

Beni Prasad Rauka: Yes.

Ganesh Radhakrishnan: Okay. Last question is that do you see any seasonality in your business usually some of the quarters are better than the others?

Chandrakant Rathi: Small, mildly because normally Q1 and Q4 are always little better and our Q2 and Q3 are little soft.

Ganesh Radhakrishnan: My last question is in our recording Novozymes, I am hearing that they are actually going to put up another plant in Maharashtra, what kind of competition do you foresee coming from this multinational company?

Chandrakant Rathi: Honestly, we do not see any competition coming from this multinational company because their business model is different than our business model and we are predominantly into human health nutrition, our 75% of business is in human nutrition where Novozymes has no business, almost negligible business.

Ganesh Radhakrishnan: Okay. You mean to say there is no overlap on the products?

Chandrakant Rathi: Some small. Because we do have some product line where we are very strong and what we call technical enzyme. We do some small business there too and they do like in animal feed enzyme there is some overlap. We would compete with them also, but mostly there is very small kind of competition between them and us.

Ganesh Radhakrishnan: Okay Sir. Thank you very much and all the best for next quarter.

Chandrakant Rathi: Thank you so much.

- Moderator:** Thank you very much. We have the next question from the line of Aakash Manghani from BOI AXA Investment Mangers. Please go ahead.
- Aakash Manghani:** Good evening. Thank for taking my question. First of all I would like to understand these new initiatives that you talk about patent for palm oil extraction and detergent enzymes. Could you talk a bit more about which geographies we are getting into, what is the nature of this patent and for what specific application are these enzymes?
- Chandrakant Rathi:** As you rightly know palm oil extraction our patent is granted in by Indonesian government and Indonesia is the largest palm oil producer in the world, almost over 50% of palm oil being produced by the Indonesia alone. It is for extraction of palm oil, from crude palm oil they call, CPO extraction from the palm fruit. So, this is the patent we got it for that and actually market is limited to palm oil extraction countries, which are Indonesia, Malaysia and then some part of Africa, Latin America, partly in India too. There are some companies already producing palm oil in India as well, but it is very small and that is the area of growth for us.
- Aakash Manghani:** When you say area of growth you would have definitely done some assessment on the opportunity size and the revenue that can garner over the next couple of years, so you can share some?
- Chandrakant Rathi:** Palm oil industry is about worth somewhere around \$30 billion and we are with our current enzyme process, we are able to improve the profitability or the yield by about 10%. So \$3 billion is currently opportunity getting unlocked and our research, which we did we could increase the yield up to 30%, so roughly about \$9 billion or \$10 billion worth of potential is there also in that same opportunity.
- Aakash Manghani:** \$30 billion is the value of the palm oil industry, now within that the extraction process, you are bring in a new extraction process, which will improve the yield?
- Chandrakant Rathi:** More quantity of oil will be produced by the same fruit.
- Aakash Manghani:** Who are the other players who all looking at this market?
- Chandrakant Rathi:** It is a very large opportunities. I am sure all the big players also would be looking at the opportunity.
- Aakash Manghani:** So the Novozymes of the world and CHRLs of the world would be present?
- Chandrakant Rathi:** They must be, everybody is trying to look at this opportunity but you know always it takes long number of years like for us it took 10 years to reach to this situation. It takes long time to reach to that market stability of the product.
- Aakash Manghani:** This is the process patent.

- Chandrakant Rathi:** Product and process patent both.
- Aakash Manghani:** This is valid on which geography?
- Chandrakant Rathi:** We already filed patent in India, Indonesia we got the patent.
- Aakash Manghani:** By when do you expect to have meaningful revenue in this segment?
- Chandrakant Rathi:** From the next financial year.
- Aakash Manghani:** Okay. What numbers can we talk of say two, three years down the line?
- Chandrakant Rathi:** Honestly, I told the opportunities so huge. If it opens up then it will be flooded.
- Aakash Manghani:** Then on the detergent enzymes which geography are you looking at and over there what is the absolute sales because that is a market which is largely catered by B2B segment, right?
- Chandrakant Rathi:** Correct.
- Aakash Manghani:** Over here what is the value proposition that you would provide?
- Chandrakant Rathi:** Same, detergent is detergent, so value is good washing at low cost that is all.
- Aakash Manghani:** You will provide your enzymes at a cheaper cost than Novozymes?
- Chandrakant Rathi:** No Sir. We will give a value proposition to the user that they can save some money or create a better detergent at the cheaper cost, that is it.
- Aakash Manghani:** This is for India or this is for which market?
- Chandrakant Rathi:** Anywhere in the world Sir. World is the market, not India. USA, Europe, everywhere we are working with various companies and on a very confidential basis because it is a very partnership type of approach and not just merely offering an enzyme.
- Aakash Manghani:** Okay and this will start to generate revenue in FY2018 also?
- Chandrakant Rathi:** Yes Sir.
- Aakash Manghani:** Okay and B2B segment generally has much lower margin profile compared to your overall portfolio?
- Chandrakant Rathi:** We do not see that way because finally you look at, you go and buy a banana in the market and you ask for a rate of dozen and then if you buy one banana, the vendor would not give at the same price because you look at overall profitability rather than just simple one quantity. So

quantity and pricing the profit from the whole process from one customer is a concern not just mere one. Suppose if tomorrow I get a 100 Crores worth of business from one customer then the margins are little lower we will be okay with that as well.

Aakash Manghani: What is the margin below which you will not want to get into the business, cut off margin?

Chandrakant Rathi: When you look at our overall trend, we always have improved our margins all the time. So, we have no intention of coming to a lower margin business.

Aakash Manghani: Can I expect that your FY2016 margin is something that we replicated in going forward also?

Chandrakant Rathi: We have given everybody, we told very categorical that will be in the mid 40s all the time for next 10 years, so that is the way we are looking at.

Aakash Manghani: Mid 40s, okay; lastly on this sales decline that you had in Q3. What is the contribution from the top customer in last year Q3 FY2016?

Chandrakant Rathi: Last year they bought 72 Crores worth of enzyme. In the previous year out of 294 Crores and this year they already bought in the first six months itself 65 Crores worth of enzymes.

Aakash Manghani: That is last year what was contribution in Q3 FY2016?

Chandrakant Rathi: Q3 FY2016, 21 Crores.

Aakash Manghani: Okay. When you conducted your Q2 conference call in end of November. At that point of time you are mentioning that second half will be much stronger than first half and you had already delivered 33% growth in first half FY2016, so you would have known about this buying not been existent in Q3, you do not call out that, you are thinking that second half will be much stronger than the first half and this came as a surprise actually?

Chandrakant Rathi: I think we said because normally what happens, not second half, our Q1 and Q4 are always good, Q2 and Q3 always little slow, little low always all the time but this year, sometime the trend, the large customer their own program and if they are buying more, they communicated us somewhere in mid November or just after this call only that we cannot buy in the coming quarter. There were some change in their management all that so there was a little bit of gap on communication normally, otherwise most customers communicate ahead, but they will holding lot of inventory and they realized that they cannot buy in the quarter Q3.

Aakash Manghani: You are saying they did not buy in October and November and you were expecting them to buy in December but they communicate that you in December that they are not buying?

Chandrakant Rathi: They communicate around after November end that they have some inventory and then they placed the order in December with advanced money. The goods are shifted in January to them.

- Aakash Manghani:** What is the revenue that you can expect from them in Q4 from this top customer?
- Chandrakant Rathi:** Earlier their judgment was \$20 million for the coming whole year and now it does not look like there will be quite low, but more than what they bought last year. Around 80 Crores should be their buying for the current financial year.
- Aakash Manghani:** Okay. That is it from my side. Thanks.
- Chandrakant Rathi:** Overall sales in Q4 would be about 80 Crores.
- Aakash Manghani:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Jagbir Singh from Shade Capital. Please go ahead.
- Jagbir Singh:** Sir, You did 74 Crores of revenues in December 31, 2015 and 60 Crores in this current quarter, but your raw material cost is up by Rs.4, so what is the reason.
- Chandrakant Rathi:** That removed 21 Crores which was our top customer did not buy, when the moment you remove that sale number from that number also you will see the numbers are almost identical same, so when we look at on a consolidated basis of the entire year, then you will see that rather our material cost has gone down overall in nine months from earlier 22% to 20%.
- Jagbir Singh:** Okay and you did Rs.91 Crore of revenue in December 30, 2016 quarter so where do you expect to achieve this number again that so you are saying in the March quarter you will be around 80 Crores?
- Chandrakant Rathi:** You will see the Q1 of the next year you will see that number surpassing.
- Jagbir Singh:** Sir I am following in many interviews since your IPO...
- Chandrakant Rathi:** Thank you so much. I really appreciate Sir.
- Jagbir Singh:** So you were also very bullish on the business so I do not understand why other pharma companies are not trying to business, is that scalability of business or any other reason?
- Chandrakant Rathi:** It is a very sticky business at least you need 10-15-20 years of hard work to reach where we have reached.
- Jagbir Singh:** Okay so where do you expect in 2018 or 2019 to close in the revenue side?
- Chandrakant Rathi:** Well, I think we already gave you those forecast minimum growth of 20% on topline and around 25% to 30% on bottomline that is what stands good for next ten years.

- Jagbir Singh:** Okay without any capex that is you are telling in most of the interviews?
- Chandrakant Rathi:** Yes, capex will be your marginal capex we needed and then also we are also need marginal capex which is we call incremental small capex amount not major capex and we have the ability to double our plant capacity current plant capacity by another 50-odd Crores, which is very reasonably small number in these kind of businesses.
- Jagbir Singh:** Thanks. This is from my side.
- Moderator:** Thank you very much. We have the next question from the line of Harish S who is an investor. Please go ahead.
- Harish S:** Thanks very much for taking my question. Sir this is Harish. I have been holding your shares from the IPO time I am very excited about the prospects, but I will confess today's drop came to be as a bit shock, but that does not affect my holding. The question that I had was two fold one was about the disclosure aspect and I think it also was reflected in one of the earlier questions do you think going forward the moment you detect an anomaly in terms of the numbers and therefore it impact on the revenues that could be disclosed somewhere to the margin?
- Chandrakant Rathi:** Honestly we do not know, actually we are walking this path for the first time but you know we are very that way it will be very transparent in all our getting with all investors because we value your association with us but there is no such procedure to communicate when the customer like there are the several customers communicate to us and they say, yes, we will buy more then we cannot keep on communicating that this customer will call, we will buy more or some say sorry this month I am not currently buying but I will buy in next month or something so this is very difficult and this is to be done plus particularly the business that we are talking about in US and is our step down subsidiary so from there getting all the data and again like communicating to exchanges it is little tricky and we are yet to walk that path honestly.
- Harish S:** Sure and that probably leads to me my next question which is that the biggest market as I understand please correct me if I am wrong is the US is that right?
- Chandrakant Rathi:** Well, so far US has been the biggest market because you know if you look at the whole pattern of enzyme consumption all the countries where the per capita GDP is high there the enzyme consumption is highest because there the value of life is better and where the per capita income is low there they do not value so much the environment or the value of life as such. So consumption is always higher and plus at the same time say US or Europe they are highly aware about the benefit of enzyme in using enzyme in their life. So, if you look at the detergent industry in India today, the detergent industry always 27 Crore that enzyme-containing detergents is less than 2000 Crores being sold in country. Against that, in Europe and USA between 70% and 80% of detergents contain enzymes. So it is like progression path which is there in the developing countries and that is how the pattern is going to be.

Harish S: Sure. And hence in that context Sir any plans that you have about derisking the dependence on let say developed market completely and I understand is also a function of the way the market itself evolves but like you said if there is palm oil extraction that seems to open up a market in a place like Indonesia are there over the next one year or even two years any plans to sort of either balance out the dependence on US or so you increase the dependence on other markets which might reflect in the P&L?

Chandrakant Rathi: See first and foremost we have a long set up in USA. Our US Company, which we acquire in 2011, was setup in 1985 so it is a 32-year-old company with a 42 employees working there and everything is in place. We have two large plants out there so I would like to encash maximum from the US market first. Because that will give me a quickly the topline and bottomline it is a largest market plus the people are very fair and spare out there which is many times in Asian countries or other places there are like Africa the openness is missing, which is the quite easy in the much more transparency is there in the western developed market so and they value us except cost of travel because the people are again except a little bit of cost of travel we do not see any other problem in expanding those markets. So we will continue to grow our US business from the current level to much bigger size in the next five to ten years that is our growing focus. Along with that we also tapped the opportunities of the markets, like Indonesia, Malaysia, Africa even the middle east, China for the matter and of course Europe.

Harish S: Sir if I may request you to just give me an understanding of the way from the contribution standpoint the way each of these markets would contribute to the revenue so for example if USA is first and then Europe comes next and Asia is third do you see any change in that mix over the next two years or would it largely remain the same given that it may all grow at the same rate?

Chandrakant Rathi: No see the US and India are the biggest contributor to us and we see now slowly like we would like to see the pie of other markets increasing more and more but we also are getting lot of like huge growth in India and US also itself so may be going forward will be a marginal difference here and there because the growth is going to be there and the same time it could be more from the two sets of market like USA and India because we are very strong presence and you need very strong presence to enter the market in any of these kind of technology driven company.

Harish S: Okay and therefore, Sir the last question I had was any impact that you foresee about the proposed broader tax and the whole discussion about levy from a pharma perspective on Advance Enzyme?

Chandrakant Rathi: Honestly No, we are completely insulated from all such vagaries. Little bit they get affected and that would be the smaller portion for us but each and every of our customers also are been regularly growing so that upsets the whole process.

Harish S: So as an investor I can confidently go back and write on in a notebook that the whole broader tax is not something that I need to loose my sleep over, is that correct?

Chandrakant Rathi: For our company at least, a very steady cash flow very steady business growth on a yearly year-to-year basis do not look at quarter-to-quarter basis, our company is not Q-o-Q comparable kind of company.

Harish S: Sure and I am also looking at it from that perspective. So that really helps. So that is it from my side and I really hope the next call when we speak again there is more reason to cheer.

Chandrakant Rathi: Please do not loose your sleep. That is all I can tell you. Thank you so much Harish.

Moderator: Thank you. We have a next question from the line of Mr. Sriraman from Metro Investments. Please go ahead.

Sriraman: Good evening to you. I have a couple of questions, No.1 is that during the Q3 how many customers have you added and there was any attrition of customers in your business?

Chandrakant Rathi: Honestly we have not lost any customer but we added I think percent wise 6% growth has come from the new customers.

Sriraman: 6% of revenue growth has come from new customers, okay fine. The second one is that you mentioned about this palm oil extraction the new business will be entering into, will you be protecting this gross margin of the existing business or will it impact negatively or positively for this?

Chandrakant Rathi: Sir the way to look at is the opportunity like really doing large volume values where do you get more profit in the kitty so you should not look at quarter-to-quarter basis but on long term basis we already said that our EBITDA margins will be on mid 40s and the company will have a very healthy profitable growth year-on-year that way we have to look at it. Not whether this product too much margin or if I get too much of volume of buying then I will be okay to even load on my margins. Like we do in every way that is what we do in our day-to-day life when we buy something in large quantity we try and look at a little cheaper price.

Sriraman: You mentioned that the current gross margin is about 70%?

Chandrakant Rathi: Well that is the nature about business Sir, but EBITDA margins are a mid-40s and the gross margins are around 70%.

Sriraman: So even this palm oil new business same type of margin?

Chandrakant Rathi: Yes, Sir.

Sriraman: This what I just wanted to know. Thank you very much.

Chandrakant Rathi: Thank you so much.

- Moderator:** Thank you very much. We have the next question from the line of Pankaj Agarkar who is an individual investor. Please go ahead.
- Pankaj Agarkar:** Hello Sir, my question is regarding today's disclosure about some product recalled in US, what was the issue and have that the customer not buying from us?
- Chandrakant Rathi:** Well this is a very old three four year history, you are talking about but there were like few customers left during that period when we did the product recall not everybody was not happy about it. It was not a happy occasion for anybody either for us or for the customers but if we want to comply with the law, which are our company values, the most so we did voluntary recall the product and that and now 90% plus customers are retained by us.
- Pankaj Agarkar:** Okay my second question is do you need to have US FDA plant and when this inspection is due?
- Chandrakant Rathi:** Well it is not the case in our case we do not need a drug type inspection because where in a food category nutritional support dietary supplement and not a drug. So there is no such kind of stringent comment like US FDA inspection, which you hear about other pharma companies.
- Piyush Rathi:** Basically we are in the nutraceutical category of course we confirm with the US FDA but the regulation is very different compared to pharma regulation for the US FDA pharma regulation for drugs is very different and we come under the nutraceutical dietary supplements regulation.
- Moderator:** We have the next question from the line of Mr. Rohan Gupta from Edelweiss Securities. Please go ahead.
- Rohan Gupta:** Good evening. Sir this apart from the key product, which we have I am actually more worried about the other product which is also not going some sort of growth even if I adjust it for the largest number of contribution then also this quarter growth was hardly 5% from other products right this was slightly 7% in the Q2 so when we are guiding for 15% to 20% growth in the overall topline category and if we were apart from the largest product if other product category is not growing then how we are targeting to achieve that kind of topline growth?
- Chandrakant Rathi:** See honestly we are targeting more of a profitable growth rather than the product topline growth....
- Rohan Gupta:** In terms of profitable growth you have already has almost interest margins you mentioned that your 40% margins are EBITDA margins likely to remain there so unless you do not grow on topline at 15% to 20% how you would be able to achieve the profitable growth then it has to be only acquisition led probably that is what you have done with JC Biotech?
- Piyush Rathi:** Mr. Rohan if you see our nine months growth we have grown by 15% on the topline and bottomline is grown about 35% compared to last year nine months.

- Rohan Gupta:** Sir I understand that number but you look at that it is only driven by the single product?
- Piyush Rathi:** In our product in our business we cannot see really the one single quarter in isolation. That is not the right approach to look at our business. There might be some quarters it could be skewed up and down it is possible and we have been also been forthright in sharing this information with the investors and also analysts.
- Chandrakant Rathi:** The JC Biotech is the first acquisition over entire history of the company so it is not like a growth is not led by any acquisition process.
- Rohan Gupta:** So, Sir that was exactly my point in nine months growth definitely has been driven by the single player, but other growth should have come or you see that there will be some topline contribution will come from the other products may be in upcoming quarters you would have been seen some product customer is getting attracted to other products rather than top products?
- Chandrakant Rathi:** When we are marketing started when we are concentrating on growing on international market the growth always takes a longer time because international markets are always have customer visits, then they take a trial quality then the movement happens so in spite of that 6% growth is coming from the new customer and there is a 15% growth in the sale number 35% growth were profit in the nine month basis that itself is very good.
- Rohan Gupta:** So if I just conclude that probably there is some other products which are getting attraction, but some how they are not getting reflected in revenues and probably that may be going forward in any of the quarters we will see some bump up revenue contribution coming from those products?
- Chandrakant Rathi:** Correct, you are absolutely right Sir.
- Rohan Gupta:** Okay Sir just again on the detergent business where you are making your entry that has been over competitive business and also little lower on a margins front so this entry in that business is only to capture or to address more topline growth issues or do you see that there is enough opportunity for you in that segment their also you can enjoy 30%-40% margins?
- Chandrakant Rathi:** Sir, we see huge opportunity there.
- Piyush Rathi:** We also believe Rohan that we have a competitive advantage now and something unique to offer to the market.
- Rohan Gupta:** Something unique, that is what my question was something unique even in the commodity space right?
- Chandrakant Rathi:** Yes.
- Rohan Gupta:** So detergent is a commodity space where all the players in that space are?

- Chandrakant Rathi:** We are not the enzyme suppliers, enzyme suppliers are only two in the entire detergent industry globally, only two globally.
- Piyush Rathi:** Two very large ones.
- Rohan Gupta:** So you are going to do something different what Novozymes is doing in detergent?
- Chandrakant Rathi:** Yes, of course.
- Rohan Gupta:** That is what my question was so there your margin profile despite being a detergent in commodity business you will continue to imbibe 40% or similar margins what you have been doing right now?
- Chandrakant Rathi:** Yes Sir.
- Rohan Gupta:** That answers. Thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Mr. Ravi Shetty who is a retail investor. Please go ahead.
- Ravi Shetty:** I wanted to know why there is so much dependence on the one client?
- Chandrakant Rathi:** Ravi see it happens in any company's growth company they initially begin with you look at all the big companies they have dependency initially with one product or one major customer to begin with as they grow then they expand their overall range and zones and then they add more good players in the process. So good products more into line but this is how the story of all the growth companies. There is no company to my knowledge grow suddenly in all the product lines so we have currently one star winner Virat Kohli in our team and we are developing some many now in the process.
- Ravi Shetty:** I hope we will see more Virat Kohlis in the stock.
- Chandrakant Rathi:** Yes Sir guaranteed.
- Ravi Shetty:** Thank you so much.
- Moderator:** Thank you. Next we have a follow up question from the line of Sneha Talreja from Emkay Global. Please go ahead.
- Sneha Talreja:** Thank you so much for taking the follow up question. My question was basically related to I was adjusting your number which you gave for JC Biotech which was around 38 million so the adjusted growth actually comes down to about 5% on a Y-o-Y basis and given that in the previous question that you have stated the 6% revenue growth is coming out of new products can

you highlight what is the outlook for the existing product and how are we growing in those businesses?

Piyush Rathi: Sneha, basically we can talk about broadly the industries and applications which are growing so animal feed is growing.

Sneha Talreja: Sir if at all you can mention how much has been the growth in animal feed or nutraceutical segment on a broader basis?

Chandrakant Rathi: See animal feed also like you know new geographies, which is export market we have started working because in India we already have reached to a leadership position and once you reach to leadership position then the growth rate falls down. So, in the Indian animal feed industry we did not grow significantly this year but our exports have grown by 7 Crores in the last nine months and new markets were tapping now and that itself is 7 Crores in a nine month is a extremely good figure in the international market, very good number.

Sneha Talreja: Sir can you quantify the same for Indian market also?

Chandrakant Rathi: Indian market we did not get any growth in the last nine months in the animal feed industry, Sneha.

Sneha Talreja: So it has been a flattish kind of a thing?

Chandrakant Rathi: Yes, very flat and due to some what you call couple of issues and of course and one of the demonetization issue and couple of issues, those are the things in which the Indian market did not grow.

Sneha Talreja: Sir same if at all you can give something for a nutraceutical segment also how are we doing in that segment?

Chandrakant Rathi: Nutraceutical segment is US driven predominantly and the India is more of API business.

Sneha Talreja: So the nutraceutical of course is taking the lead by the top products how is our API business doing Sir?

Chandrakant Rathi: Very well. We have been growing very well.

Sneha Talreja: What has been the growth rate in the last nine months?

Chandrakant Rathi: No again Sneha we constantly keep on looking at the product churning out like we are discarding the products where the margins are lower and what happens over the period certain products you have to when you look at the whole strategy we look at which are the product contributing

enough in the profitability so we churn out them so there is a drop up number is there and the product which we are giving good margins where the increase in sales will happen.

Sneha Talreja: Okay so basically on margins continue to increase because we are taking out the low margin segments and that is why the revenues would see a drop?

Chandrakant Rathi: The normal process is we look at where our leadership position is best.

Moderator: Thank you. We have the next question is from the line of Rohan Advant from Multi Act. Please go ahead.

Rohan Advant: Good evening and thanks for taking my question. Sir on the palm oil extraction product have we already started talking with prospective customers and have you got any feelers from them regarding orders or anything like?

Chandrakant Rathi: Of course, we already have been in touch with the large buyers who have more than 80 mills each one and the trials are now one customer already started the plant scale trial and other has already promised in the month of June-July so there are good developments already happening in that area.

Rohan Advant: So based on say the capacity that we have and the feelers you have got what is the opportunity size in terms of amount that you would be looking at over the next three years or so on this product?

Chandrakant Rathi: Because this is very difficult to predict but we think it will just come to know as the couple of quarters pass by then we will be able to give you a much concrete answer because you know I would like to see the few plant scale trail getting established before I can give any comment on such basis.

Rohan Advant: Sir secondly on the top customer where there has been a ramp down Sir what is the nature of this product is it a dietary supplement product?

Chandrakant Rathi: Yes, perfect.

Rohan Advant: Okay so what stage of growth is this product in, is it a fast growing product or mature product?

Chandrakant Rathi: No, we already been in last six or seven years there has been consistently buying and they have been growing well but this year they wanted to launch a new country all together and due to that we had expected much bigger growth so they are not ramped down but they bought lot of quantity in the first six month itself, hoping that they will get more sale but as it did not work out so they did not buy in the last quarter and started buying now again.

- Rohan Advant:** Okay So Sir could you name the product I mean in the generic or not the brand so that we can track how that is?
- Chandrakant Rathi:** In USA there are lot of confidentiality laws and the fairness are in place by these customers they do not want us to communicate to the people.
- Rohan Advant:** Okay fair point Sir. Thank you and best of luck for the next quarter.
- Moderator:** Thank you very much. We have the next question follow up question from Aakash Manghani from BOI AXA investment managers. Please go ahead.
- Aakash Manghani:** Thanks for the follow up question, Sir this is with regards to your top client now FY2016 you said the revenue contribution was around 70 Crores this year FY2017 we are looking 80 Crores you said what visibility would it be having for FY2018 because I assume that they will do annual sales planning and they would have done it for this calendar year?
- Chandrakant Rathi:** Not yet, they did not yet come back because of the sudden changes happened in management out there so as soon as probably the next quarter we will have some more communication from them in on this particular process but normally they would see any what you call receding of the sales, the buying the growth may not be that big or the consistently what are the once any product get established then that much amount is continuously keeps on moving.
- Aakash Manghani:** But do you, normally do you that annually sales then on a quarterly breakup then eventually from the client or how does every month you get a scheduled on based on that you plan it?
- Chandrakant Rathi:** Normally it is part of schedule, quarterly schedule available from most of these customers.
- Aakash Manghani:** Okay how large this particular dietary supplementary product in US in terms of revenue?
- Chandrakant Rathi:** Very large to my knowledge.
- Aakash Manghani:** Can you give me some number?
- Piyush Rathi:** Supplementary industry is about \$65 billion.
- Chandrakant Rathi:** \$65 billion on the overall industry that the supplementary industry is so big and this product it should be around I think around \$200 million.
- Aakash Manghani:** How many suppliers of your kind would be there for this particular dietary supplement?
- Chandrakant Rathi:** Only one supplier for this product.
- Aakash Manghani:** Only you are present?

- Chandrakant Rathi:** Because we do customized solution. We offer a solution not a product. We give a customize formulation to fit a particular customers need.
- Aakash Manghani:** Okay so your supplying \$11-\$12 million worth of enzymes to him and his revenue is \$200 million so for him also you seem to be a sort of very important supplier?
- Chandrakant Rathi:** Right.
- Aakash Manghani:** How this 200 million dollar would have grown in the last two three years?
- Chandrakant Rathi:** It has grown very well, very small order in six years back and now they grown to last year they bought \$11 million worth of goods.
- Aakash Manghani:** And this is only specifically for USA?
- Chandrakant Rathi:** Yes.
- Aakash Manghani:** Thank you.
- Moderator:** We have the next question from the line of Raj Mohan who is an investor. Please go ahead.
- Raj Mohan:** Thanks for taking my call. On JC Biotech from 39 Crores of top line and 2.5 Crores which we did last fiscal based on your premium positioning what kind of revenue contribution you expect and profitability potential that you can done in FY2018?
- Piyush Rathi:** It is not an independent business by itself. We are looking at using JC Biotech primarily for producing one of our molecules right now and six months down the line we basically look at expanding the product portfolio there and this is basically contribute to our pharma business so FY2018 we will see a fairly large jump because of the acquisition into our pharma business which should touch about 100 Crores.
- Raj Mohan:** From the current level Sir?
- Piyush Rathi:** Around 60.
- Raj Mohan:** That was helpful and my final question was, could you get some, you have talked a lot about broad basing your product portfolio from one product dependence to more product and as the company grows obviously it will be having a natural tendency to do that but could you give some timelines in terms of having this kind of broader products contribution based on the interest you see in the new product category of palm oil extraction and detergent enzymes do you see them holding potential these two categories in specific in contributing in terms of materiality as much as this product which are minor hiccups this quarter?

- Piyush Rathi:** Basically it is a continuous strategy it is on going strategy if you look at our entire portfolio right from nutraceutical to animal feed to all the food processing industries and now of course we are talking about palm oil extraction and detergents so there are many other non-food industry that we cater to so there is a broad and there is inherent diversification in our business. Our R&D is also very broad based and so one should not look at this particular customer and product concentration so there is an inherent diversification of R&D program and we are not only focused on developing one customer in one particular application it is already the broad base focus.
- Raj Mohan:** Thank you so much and wish the very best.
- Moderator:** Thank you very much. As there are no further questions I now hand the conference over to the management for closing comments.
- Chandrakant Rathi:** Thank you so much for joining us and understanding our business and being part of our growth. We are very, very grateful and this as again already mentioned March 3, 2017 for the first time we are inviting all the institutional investors to visit our Indore facility and we will be all interacting with them to help them understand our business more in detail.
- Piyush Rathi:** Also we will be having a live web cast, which will be hosted on advancedenzymes.com and we will be sending out a progress release in coming days.
- Chandrakant Rathi:** So if you are unable come for the investor day, you can join the live web cast and could be able to see the facilities and interact with the management. Thank you very much Sir.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference thank you for joining us. You may now disconnect your lines.