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For Advanced Enzyme Technologies Limited

Sanjay Basantani
Company Secretary and Head - Legal

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“Advanced Enzyme Technologies Limited
Q3 FY2023 Earnings Conference Call”

February 14, 2023



MANAGEMENT:

**MR. MUKUND KABRA – WHOLE-TIME DIRECTOR –
ADVANCED ENZYME TECHNOLOGIES LIMITED**

**MR. BENI PRASAD RAUKA – CHIEF FINANCIAL
OFFICER - ADVANCED ENZYME TECHNOLOGIES
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**MR. RONAK SARAF – INVESTOR RELATIONS
MANAGER - ADVANCED ENZYME TECHNOLOGIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Advanced Enzyme Technologies Limited Q3 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ronak Saraf from Advanced Enzymes. Thank you and over to you, Sir!

Ronak Saraf: Good evening everyone. Welcome to Advanced Enzymes Q3 and 9 months FY2023 Earnings Conference Call. I am Ronak Saraf, the Manager Investor Relations here at Advanced Enzymes. We hope you all have gone through our financials, press release and the presentation, which has been posted in the investor relation section of our website. We have with us Mr. Mukund Kabra – Whole Time Director, and Mr. Beni Prasad Rauka – Group Chief Financial Officer. Today management will discuss the performance and business highlights, update on strategies and respond to any questions that you may have. As usual for ease of discussion, we will look at the consolidated financials.

Before we proceed I would like to draw attention for the forward looking statement contained in Presentation. During our call, we may make forward looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that may involve risk and uncertainty. Our actual performance and results may differ materially from our forward looking statements. With this, without any further ado we shall commence this call. Over to you, Mukund Sir.

Mukund Kabra: Thank you Ronak! Good evening everyone. I really appreciate you all for taking out your valuable time and I welcome you all to the conference call for the quarter and nine months ended 31st December 2022.

Starting with a quick brief on global conditions. Disruption continued in the business environment, global economic scenario continues to remain uncertain with cues of recession resulting in lay off and inflation remains elevated leading to sluggish consumption and the geopolitical crisis remained fluctuant. On the positive side the raw materials prices have started easing and so do the freight cost. We sincerely hope this prices gets stable in the coming quarters. Despite all the uncertainties, our quarter three financial results demonstrated an improved top line growth. Although our operating cost remains elevated which impacted our profit margin. The growth in the Q3 numbers are driven by animal nutrition and bio processing segments.

As far as the quarterly performance, our top line stood at Rs.1,421 million, grew 2% on a sequential basis and on a yearly basis we have grown about 6% in Q3. On year to date nine months it stood at Rs.4,019 million that is just 1% growth. Our EBITDA stood at Rs.417 million, grew 5% on a sequential basis while it has declined by about 15% on year on year basis and 30% in nine months. We have experienced growth of 6% in the bottom line on sequential basis while

it declined 2% on year on year basis and 27% in nine months. On the margin side, EBITDA margin stood at 29% and PAT margin stood at 20% during this Q3. Our overall margins remain subdued from year on year basis on account of elevated operating cost.

Talking about the segment wise performance, the human nutrition segment remained highest contributor as usual. It is at 66% of the total revenue. It grew by 2% on annual basis where it declined by 1% on sequential basis. On 9 month year to date comparison it declined by 2%. Pharma, API and bio-catalysis in domestic markets and probiotics in international markets primarily supported the numbers in human nutrition. There is softness in the nutrition business as an impact of inflation, it remains subdued. The animal nutrition segment contributed 12% to the revenue. This segment is continuously improving from few consecutive quarters it grew by 33% on year on year basis, 2% on sequential basis and 23% on 9 months year to date basis. Bio processing, during the quarter bio-processing segments surpassed the contribution of animal nutrition segment and contributed 16% to the revenue which was 12% in the same quarter last year. It grew by 41% on year basis and 17% on sequential basis. Both food and non food business grew by 38% and 49% respectively on year on basis. The specialized manufacturing segment contributed 6% and grew by 4% on sequential basis with a negative 31% and 34% on year on year basis and on 9 month year to date basis respectively. With this I will now hand over the call to Mr. Beni Prasad Rauka. He will walk you through the financial and key subsidiary numbers. Over to Beni.

Beni Prasad Rauka: Thank you very much Mukund. Good evening everyone. I hope you all are in good health. On the company's financial for the third quarter of 2023. On quarter on quarter basis, Q3 versus Q2, the revenue has increased by 34 million a 2% increase from Rs.1,387 million to Rs.1,421 million. Our EBITDA has increased by Rs.20 million about 5% from Rs.397 million to Rs.417 million, this is about 29% of our revenue. Profit before tax has increased by Rs.62 million from Rs.342 million, this is 25% of revenue to Rs.404 million, 28% of revenue. Our PAT has increased by Rs.16 million, an increase of 6% from Rs.263 million to Rs.279 million, 20% of the revenues.

On year on year basis, Q3 of current financial year versus Q3 of last year, our revenue has increased by Rs.85 million from Rs.1,336 million to Rs.1,421 million. EBITDA however has decreased by about Rs.74 million from Rs.491 million to Rs.417 million and profit before taxes decreased by Rs.8 million from Rs.412 million to Rs.404 million, 28% of our revenue from 31%. PAT has decreased by Rs.7 million from Rs.286 million 21% of revenue to Rs.279 million this is about 20% of our revenue.

Let me give nine months number, so our revenue has increased by Rs.43 million, an increase of about 1% from Rs.3,976 million to Rs.4,019 million. The EBITDA has decreased by Rs.488 million from Rs.1,611 million to Rs.1,123 million so EBITDA margin has decreased from 41% to 28% in nine months of current financial year. Our profit before tax has decreased from Rs.1,371 million to Rs.983 million which is roughly 24% of our revenue as compared to 34% of last year. PAT has decreased by Rs.267 million from Rs.985 million to Rs.718 million about 18% as compared to 25% of PAT.

Let me give you some financial number of our subsidiary company. Evoxx performed very well in this quarter. It is EBITDA positive from Rs.4 million to Rs.17 million in this quarter and the top line has increased from Rs.48 million to Rs.65 million. For nine months Evoxx top line is Rs.182 million as compared to Rs.160 million of last year and EBITDA of Rs.39 million as compared to Rs.11 million last year and for nine months Evoxx reported a profit after tax of Rs.10 million as compared to loss of Rs.22 million during nine months of last year. JCB has reported EBITDA negative during this quarter as compared to EBITDA Rs.14 million positive to negative Rs.17 million and the PAT is about Rs.20 million negative as compared to Rs.5 million positive during last quarter. Overall, for nine months JCB has although reported increase in sales from Rs.365 million to Rs.394 million but this year it is negative Rs.8 million as compared to Rs.55 million of PAT during last year nine months. SciTech has reported Rs.86 million of revenue as compared to Rs.84 million during last quarter and for nine months SciTech has reported total Rs.236 million of revenue as compared to Rs.360 million in 9 months of last year and SciTech is also EBITDA negative of Rs.30 million has compared to Rs.78 million last year. Accordingly the PAT is also negative Rs.51 million as compared to Rs.35 million of net profit in last nine months. Our largest product which is anti-inflammatory enzyme, the sales stood at about Rs.333 million as compared to Rs.279 million in Q3 of last year and for nine months the total sales of anti-inflammatory enzyme is Rs.963 million as compared to Rs.792 million during last nine months and it is posted a increase of about 22% and it constitutes 22% of sales as compared to 24% last year. Top ten customer contributes on YTD basis about 26% compared to 28% last year and our B2C segment has contributed about US\$1.6 million of sales in this quarter as compared to US\$1.55 million during the same period previous year. Overall B2C sales for nine months is US\$3.63 million as compared to US\$4.31 million, so it's a de-growth of about 16%. Human healthcare, let me give a break up of sales, international sales, domestic sales so Q3 India sale was about Rs.393 million as compared to Rs.440 million in the last quarter and in the third quarter of previous year Rs.382. International sales Rs.541 as compared to Rs.499 in the previous quarter and the relevant quarter of the previous year Rs.536 so overall the sale has gone up from Rs.918 million in Q3 of last year to Rs.934 million in Q3 of current financial year, but yes as compared to the previous quarter it is down by Rs.5 million. Our R&D expenses has gone up and for nine months the R&D expenditure is about Rs.211 million as compared to 146 million during the nine months of the last year, so this was from my side. Now we shall open the floor for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shikha Mehta from Equitree capital. Please go ahead.

Shikha Mehta: Hello Sir. I just have a few questions. Wanted to understand when we will be able to go back to a historical EBITDA margins or what guidance we have on that front, when our margins will normalize to say north of 40%.

Mukund Kabra: So if you notice there is some recessionary pressure in the US market and the US market sales were down. US market contributes to higher EBITDA and higher margins. We are in the process of launching a couple of good products during this quarter and we expect the new product should

give the sales after another four to five months so I think at that time we will come back to our original territory.

Shikha Mehta: So over the next say two quarters we should see our margins come back to north of 40% that is what we are looking for right.

Mukund Kabra: Yes.

Shikha Mehta: Sir another thing on the animal nutrition side we were witnessing swine flu and all these other problems but this quarter we have seen a sequential improvement so can we assume that has been addressed and going forward this segment should do well.

Mukund Kabra: So lot of focus is there on the animation feed market. The major growth is coming from the Asian market at this point of time. We expect the growth to continue in the coming year as well and this year also we should do a decent growth.

Shikha Mehta: Alright Sir. Thanks I will come back in the queue.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Thank you for taking my question. Sir with all these geopolitical things going across how we are seeing our Evoxx and mainly Evoxx performance going forward and overall with all the logistics cost, freight cost reducing so are these going to benefit on our side on the margin front.

Mukund Kabra: So for Evoxx, we believe that it will be more or less the constant because it is doing more on the R&D front rather than the real revenue generation so I expect Evoxx to be more or less neutral from the revenue and it will be EBITDA positive. Freight cost when it goes down of course it helps on the margins but our major margins will come from US market as the US market stabilizes we will come back as I was telling to Shikha we will come back to our original territory.

Rohit Sinha: If I heard correctly JC Biotech I think has reported a loss in this quarter so is it because of I mean cost pressure only or has there been lower realization or lower volumes as well.

Mukund Kabra: It is mainly to the cost problems and there were like couple of issues which we have addressed in this quarter. They were a little bit on the higher side on the maintenance cost as well in this quarter so it will come back to the normalcy by the next quarter.

Rohit Sinha: Okay any guidance you can give for FY2024 in terms of top line and EBITDA growth.

Mukund Kabra: Right now we are working on that but I feel like next year should be much better than this year.

Rohit Sinha: Okay that is it from my side. Thank you.

- Moderator:** Thank you. The next question is from the line of Sarvesh Shenaian, an individual investor. Please go ahead.
- Sarvesh Shenaian:** Good evening I have a question regarding competition. Is the competition building up right now?
- Mukund Kabra:** Good evening Sarvesh. Sarvesh it is good to have competitions in different segments there are different competitors. If you can elaborate more I can give more light which area you are talking about.
- Sarvesh Shenaian:** On the animal health care side and human both.
- Mukund Kabra:** Animal side it is the same competition which is their right, we were talking from a long time like we wanted to penetrate the market with all the registrations and other things and we are working on that from a long time so that is resulting in some kind of results right now that is where the growth is coming from in the animals side rather than the competition. Even in the human side the competition is more or less same, in the nutraceuticals competition is more intense at this point of time particularly in the US because there is recession, there competition became more active.
- Sarvesh Shenaian:** Okay so margins have not been impacted because of the competition right.
- Mukund Kabra:** It has never been because of the competition.
- Sarvesh Shenaian:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.
- Rohit Sinha:** Just wanted some clarity on this merger of the US subsidiary into one entity so what is the rationale behind that or would there be any kind of tax benefit or tax rate change would be there.
- Beni Prasad Rauka:** So Rohit the company which we have merged is in the similar business. I mean the products were same only the distribution model was different so keeping two entities was causing a lot of administrative issues and the compliance issues so that is only the reason we have merged, but there is no impact on directly in terms of tax benefit but definitely there will be some kind of reduction in expenses, but that is not such substantial because that is very small company.
- Rohit Sinha:** Okay what would be the more working capital days for us for this quarter and how we are looking at for the year end FY2023.
- Beni Prasad Rauka:** So working capital in terms of number of days of our sales continues to be in the range of about 110 to 120 days or so.
- Rohit Sinha:** Okay any possibility of improvement there.

- Beni Prasad Rauka:** I do not see immediate impact, because issue is we have so many plants and so many companies so you need to maintain different kind of inventory of raw material, finished goods, concentrate material so I think it will continue to be in the range about 110 days to 125 days or so.
- Rohit Sinha:** Okay and one last thing on capex side and our earlier announcement on that R&D facility, what is the capex number for FY2023 and at least for nine months what we have did till now.
- Beni Prasad Rauka:** So we have spent other than land acquisition and cost related to land deal we have spent about Rs.30 million so far.
- Rohit Sinha:** Okay Rs.30 million is for 9 months. Full year ending 2023 what number we will be ending.
- Beni Prasad Rauka:** I think another Rs.30 million will be spent in couple of months.
- Rohit Sinha:** So all this is towards that R&D facility or any other.
- Beni Prasad Rauka:** It is R&D. Yes it is mainly on R&D facility.
- Rohit Sinha:** Okay that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ketan Chheda, an individual investor. Please go ahead.
- Ketan Chheda:** Thank you for the opportunity. My question is on bio catalysis products. In the investor presentation it is mentioned that we have this as a focus area and I see that in FY2022 we are mentioning that we have done a revenue of \$2.5 million so could you throw some light on this segment please.
- Mukund Kabra:** Ketan what do you want to know exactly.
- Ketan Chheda:** What I want to know is like how many products are under trial and with how many manufacturers are we doing this trial right now and by when do we expect any commercialization from this product category.
- Mukund Kabra:** There are about five to six products which are under trials at this point of time at the customers end, some of them are just taking small orders. All the products will be revenue positive maybe one or two quarters down the line this should grow much faster.
- Ketan Chheda:** You are saying that in the next six to seven months we should get some promotion in the sales some revenue from products.
- Mukund Kabra:** We started getting one or two products commercial orders from this quarter but built up will require some more time and three four products are under trial, overall it will take two quarters.

- Ketan Chheda:** Okay and how many API manufacturers are we in touch with for these categories.
- Mukund Kabra:** It depends on different APIs we are approaching those people so I do not have any numbers right now.
- Ketan Chheda:** Okay thank you. That is all from my side. Thanks.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Ronak Saraf for closing comments.
- Ronak Saraf:** Thank you everyone for taking your valuable time for attending our earnings conference call. We will keep you posted for any further updates. I request you all to kindly send in your questions that may remain unanswered. Audio recording and the transcript of this call will be uploaded on our website in due course. Looking forward to host you in the next quarter, till then stay healthy, stay safe.
- Moderator:** Thank you. On behalf of Advanced Enzyme Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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Kindly Note, there could be unpublished price sensitive information that would have been shared /discussed during the call. Complying with the SEBI regulations, we have shared Audio Transcript to the Stock Exchanges and the Company website on February 14, 2023 for information of public at large.