

Fermenta Biotech Limited (formerly known as DIL Limited)

CIN: L99999MH1951PLC008485

Regd. Office: A - 1501, Thane One, DIL Complex, Ghodbunder Road, Majiwade, Thane (W) - 400 610, Maharashtra, India.

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Email : info@fermentabiotech.com, Website. : www.fermentabiotech.com



Ref: F.No.: 49

November 23, 2020

Corporate Relations

BSE Limited,

Phiroze Jeejeebhoy Towers,

Dalal Street, Fort,

Mumbai – 400 001

Sir,

Ref.: Code No.: 506414

Subject: Transcript of Schedule of Analysts / Institutional Investors meeting held on November 11, 2020 to discuss the financial performance of the Company for the quarter ended September 30, 2020

We hereby enclose the Transcript of conference call with Analysts / Institutional Investors held on Wednesday, November 11, 2020 at 11:00 a.m. to discuss the financial performance of the Company for the quarter ended September 30, 2020.

The above Transcript shall also be uploaded on Company's website at www.fermentabiotech.com

This information is submitted to you pursuant to the provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015.

Thanking you,

Yours faithfully,

for **FERMENTA BIOTECH LIMITED**

[FORMERLY KNOWN AS DIL LIMITED]

Srikant N Sharma

Company Secretary

CS Membership No: F3617

A-1501, Thane One, DIL Complex, Ghodbunder Road, Majiwade, Thane (W) 400610

Encl.: as above

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Fermenta Biotech Limited Q2 FY21 Conference Call November 11, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 conference call of Fermenta Biotech 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 the conference call, please signal an operator by pressing '**' then '0' on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you Ayisha. Good morning everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Fermenta Biotech Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the second quarter and half year ended financial year 2021.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earning conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management participating with us in today's earnings call. We have with us, Mr. Satish Varma - Executive Director and Mr. Sumesh Gandhi - Chief Financial Officer. I now request Mr. Satish Varma to give his opening remarks. Thank you and over to you, sir.

Satish Varma: Thank you, Anuj. Good morning everybody. It is a pleasure to welcome you all to the earnings conference call to discuss our second quarter results of the financial year 2021. Being that this is our first earnings concall, let me start by giving you a short background about Fermenta

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Biotech Limited and then we will move on to the financial and operational highlights for the quarter.

As you may already be aware, Fermenta Biotech Limited was founded way back in 1951 by Dr. DVK Raju, a technocrat who was considered one of the pioneers of the Indian pharmaceutical industry. Initially, the company then known as International Franchise Limited was contract manufacturing formulations for the pharmaceutical industry. In the early 60s, Dr. Raju entered into a joint venture with Philips Duphar, a Dutch pharmaceutical company. Philips Duphar incidentally was the first company in the world to commercially manufacture Vitamin D. This JV propelled the company into a full-fledged pharmaceutical company with its own formulations and brands. By the late 60s, with the help of Philips Duphar the company also started manufacturing Vitamin D API for the domestic market, that is only India.

In 1976, the company's name was changed to Duphar-Interfran Limited and was listed on the Bombay stock exchange. In 1980, Philips Duphar, our JV partner was taken over by Solvay and Solvay became our JV partner. While the company continued to manufacture Vitamin D, limited of course to the domestic market, it flourished as a leader in the formulation business and built brands like Crocin, Lacto-calamine, etc. In the early 2000s, the formulation business was demerged into a separate entity and the foreign partners took majority control of this while the Indian promoters took the majority of the remainder of the business which was predominantly Vitamin D API manufacturing. After the demerger, the company was renamed DIL Limited. DIL at that time also had 35% stake in Fermenta Biotech Limited which was established in 1986 with its facilities in Kullu, Himachal Pradesh for manufacturing of PGA enzymes used in the manufacturing of antibiotics like Amoxicillin, Ampicillin, etc.

Post the demerger, the promoters decided to consolidate all the manufacturing business under one entity. By 2003, DIL took over majority control of Fermenta Biotech Limited and transferred the API manufacturing to Fermenta. Until 2008-2009, Vitamin D3 sales were restricted within domestic markets, however, in 2008-2009, we entered the export markets. Since then, it has been an exciting journey. Over the last 10 years, we have grown from strength to strength and now we supply Vitamin D3 across the globe to more than 50 countries and our overall revenues have grown from Rs. 40 crores in FY10 to 400 crores in the peak in FY19 with almost 75% of our revenue coming from exports. Today, we are among the largest Vitamin D3 manufacturers in the world.

Looking at the growth potential for Fermenta Biotech Limited and thereby the need for investments into manufacturing capabilities and capacities, it was decided to merge Fermenta Biotech Limited with DIL to give it better leverage, by combining the rich asset base of DIL with

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the strong revenues of Fermenta Biotech. This process was completed in FY20 and DIL's name was changed to Fermenta Biotech Limited.

Now, moving onto the quarter under review, during the ongoing COVID-19 pandemic, there has been a lot of research published linking the positive benefits of vitamin D for boosting the human immune system and helping in the prevention of the spread of this disease which has had a positive impact on the demand and consequently on our volumes of human Vitamin D3. However, the volumes and prices of animal Vitamin D3 continued to be under pressure because of the overall market situation in the meat industry. Our human side sales volume for the quarter has grown by 26% on quarter-on-quarter basis and about 77% on a year-on-year basis.

Additionally, I am also happy to announce that company has completed its backward integration project at Dahej, Gujarat and has started manufacturing its key raw material cholesterol. The plant has been capitalized in Q2 FY21. Lastly, I would also like to mention in FY20, the company had given ICDs aggregating to Rs. 21 crores in various tranches to a nonrelated party for the development of a new product, that was cholesterol from fish oil. As of date, the total ICD outstanding has been reduced to approximately Rs. 12 crores. We have also received interest on this ICD of about Rs. 1.6 crores till date. Now, I will request my colleague, Mr. Sumesh Gandhi, our CFO to give the financial highlights for the quarter and half year ended. Thank you. Over to you, Sumesh.

Sumesh Gandhi:

Thank you, Satish. Good morning everybody. On a consolidated basis, in Q2 FY21, the revenue from operations for the quarter was at Rs. 93 crores which was an increase of approximately 15.6% on a year-on-year basis. EBITDA reported was Rs. 27 crores which was an increase of about 72.4% on a year-on-year basis. EBITDA margins stood at 28.8% as against 19.31% a year ago. Net profit after tax reported was Rs. 15 crores which was a decrease of about 55% on a year-on-year basis while PAT margins stood at 15.74% as against 40.47% a year ago. However, Q2 FY20 PAT had one-time deferred tax asset or the current tax benefit of Rs. 20 crores due to the amalgamation of the companies which is why the PAT for that quarter was higher and hence it cannot be comparable with this year's PAT.

Talking about the half year performance in FY21 on the consolidated basis, the operating income for the quarter was Rs. 188 crores which was an increase of approximately 15.9% on a year-on-year basis. EBITDA reported was Rs. 49 crores which was an increase of about 22.9% on a year-on-year basis. Operating EBITDA margins stood at 26.25% as against 24.75% a year ago. Net profit after tax reported was Rs. 28 crores which was a decrease of about 39.4% on a year-on-year basis while PAT margin stood at 15.07% as against 28.83% a year ago. Again, this was due to the one-time deferred tax asset or the current tax benefit of Rs. 20 crores which I

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had explained earlier, so hence it is not comparable. Thank you everybody. With this, we can now open the floor to the 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 Viraj Mahadevia, an Individual Investor. Please go ahead.

Viraj Mahadevia: Couple of questions from my end, you know the 28.8% EBITDA margins we have done in the second quarter are meaningfully higher than 19% last year and the 24 odd percent in Q1, is that largely because of the backward integration and higher gross margins?

Sumesh Gandhi: Mr. Viraj thank you for this question, however this is not due to the backward integration which you said. We have had higher volumes as we spoke earlier on the human side plus there has been an increase which you have seen on the human side prices, the benefit of which we have seen in higher EBITDA margin, so the backward integration has still not been factored into this.

Viraj Mahadevia: Understood, so in that case that is helpful and that is what I suspected human volume should be better in price and volume despite animal being down, but given then in that case, Q3 onwards, we expect the backward integration, gross margin uplift kick in and how much margin expansion can we expect?

Satish Varma: Viraj, backward integration should start kicking in from Q3. Margin expansion on an overall perspective because Vitamin D3 we sell in various formats to various countries and various customers, so it will be difficult to peg against a particular product format to which the margins will be impacted.

Viraj Mahadevia: Overall, can be 100-200 bps at least?

Satish Varma: I would rather say that our key raw material purchase is cholesterol. We should definitely get about 20-25% minimum benefit on our overall purchasing that we do.

Viraj Mahadevia: 20-25% and how much is raw material as a percent of sale, I mean I can begin just work it out that way, right?

Sumesh Gandhi: Cholesterol purchase is approximately 45% of our total raw material cost.

Viraj Mahadevia: So if you get a 20-25% benefit, 45% can come down to 35%?

Satish Varma: Should.

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Viraj Mahadevia: Definitely your EBITDA margin and that will also down the EBITDA, see the EBITDA margin flow from 29% to very conservatively north of 35%, am I seeing this correctly?

Satish Varma: Yes, Viraj to a large extent yes.

Viraj Mahadevia: My next question is regarding, obviously Mr. Varma we live in a very uncertain environment as we all know. Now while the company has built deep capabilities in a single product, at the end of the day, it is still a single product risk, so to have capabilities in fermentation from what I understand, given the name of the company as well, are you considered the PLI scheme of the government for fermentation products in particular Vitamin D1, being one of the products in the PLI scheme which is fermentation base?

Satish Varma: We did look at the opportunities in this scheme, but scale at which you need to invest in fermentation capabilities, it is too large and the support that is required will be much more, in terms of import restrictions to subsidies, to everything. I doubt whether any company has jumped into the fermentation part of it yet, because we do have the capabilities as you said Viraj, but the fermentation capacities that need to be installed for these molecules that we are talking about, even in PGA based antibiotics also, government was encouraging on fermentation based in the PLI scheme, but the investments required are too huge for the company...

Viraj Mahadevia: I thought the investments was smaller I am not saying you should do antibiotics, but how about Vitamin B1 which was a still ancillary to our sort of broader Vitamin play and the government is giving a huge subsidy back, so my understanding is actually within 3-4 years, your entire capacity.....

Satish Varma: Again, we have looked at it. Even for B1 also the investments required are quite large. We are looking at of course fermentation, we have some products that we manufactured through fermentation in our Kullu plant, but we have restricted capacities, I should say compared to people have reactors size of 1 lakh liters and our maximum size is about 8000 liters that we have in Kullu. It requires a Greenfield expansion for us and we have lot on the plate currently that we are looking at the nutrition side, so we decided after seeing all these things from an investment perspective, we decided to concentrate and focus on the nutrition side.

Viraj Mahadevia: Understood, appreciate it that at least you all have given it consideration. My last question, Mr. Varma is regarding sort of the noncore land banks that we referred to in our prior investment presentations. Obviously, from a shareholder point of view that depresses return ratios, ROCEs, it is noncore, You have sort of assets sitting on the books, has there been any

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progress or intention to monetize or engage in discussion because that will first obviously pay off the debt that we have and then obviously fund us very nicely for our future expansion as well?

Satish Varma: You are right on all points Viraj, we are in the market, we are engaging with different parties, both through consultants as well as directly with potential real estate players. We still don't have anything concrete nor something that has started a due diligence process yet, but we are in the market. The intention is very clear. You asked about the intent, the intent is very clear that we would like to monetize it. We are just waiting for the right opportunity, nothing more.

Moderator: Thank you. The next question is from the line of Ketan Shah from CapGrow Capital. Please go ahead.

Ketan Shah: Sir, my question is on the European client, can you update us on the progress what is happening now?

Satish Varma: Yes, the European plant is currently contract manufacturing Vitamin D3 feed grade in Germany itself through another company, a toll manufacturer. We have started minimum sales from there, currently our product is going through a testing and it is a new format of the feed grade powder that we have. So it is undergoing tests and trials, we have sampled quite a few large customers, so they are testing and validating our product. They have to use it in their formulations and wait for stability studies, etc., so currently it is undergoing this process, we are just waiting for that to be completed, so that we can start serious sales from there, however, COVID and depression in the animal or feed industry is not really helping on that front.

Ketan Shah: And sir, can you share some data on the client concentration now especially on the export front, is it well diversified or how is it?

Satish Varma: Sumesh, if you can, may be give some numbers on this?

Sumesh Gandhi: Ketan, we have approximately 300 plus customers which are there across the globe and if we have to put across the concentration of it, approximately 11% of my revenue comes from USA, 34% comes from Europe and approximately 27% will be from the rest of the world, I am talking broadly from Vitamin D3 and API point of view and nothing else. So this is how the whole concentration as far as the world is concerned. From a client perspective, it will be difficult for me to put across and tell you as to which all clients are there for the competition perspective.

Ketan Shah: Let us say top 5 clients will be how much? Can you share that or it is not possible?

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- Sumesh Gandhi:** Sure, so the top 5 clients could approximately be there for say 25% of my total revenue.
- Ketan Shah:** And sir, what will be the CAPEX going forward for let us say next 2-3 years?
- Satish Varma:** If all goes well, over the next 2-3 years we are looking at investing close to 150 to 200 crores for all our new projects. We have taken a land in Saykha which is in Gujarat next to Bharuch. It is close to our Dahej plant itself, but this is not an SEZ, its a greenfield project, so hopefully if all goes well, may be by next year we will start the first round of investments.
- Ketan Shah:** And this will be for diversification in new areas, right? You mentioned in the annual report?
- Satish Varma:** Mainly, yes, taking nutrition portfolio of course.
- Ketan Shah:** And funding of this CAPEX will be through internal accruals?
- Satish Varma:** It will be a combination of both, internal and some part of the debt, unless and until something works out on the real estate and then maybe we don't need to go for any external debt.
- Ketan Shah:** And can you share how much was animal feed as a percentage of volume for us and how much was human?
- Sumesh Gandhi:** From a volume perspective, Ketan it is very difficult because both the volumes perspective are pretty different, however, from the revenue perspective in Q2, 69% of our revenue in Vitamin D3 came from human and 31% came from animal and if it is on a half yearly basis, then 56% is from human and 44% is from animal.
- Moderator:** Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.
- Shikha Mehta:** Sir, I was just wondering this raw material capacity that we have set up at Dahej, is that enough for our total requirement or would we still need to procure some amount of raw material from outside?
- Satish Varma:** At full capacity production, it will fulfil our internal captive consumption demand, but currently we still continue to procure from outside until we are completely running at a 100% for may be 2-3 quarters at least.
- Shikha Mehta:** So may be in the next 2-3 quarters, we will be at 100% and then we wouldn't need to procure from outside?

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- Satish Varma:** We wouldn't need to procure from outside, yes.
- Shikha Mehta:** Sir, you have been talking about getting into other vitamins and other product segments, is there any clarity on that or in which other vitamins or which are the products that we are looking at?
- Satish Varma:** As we were mentioning, it will be a combination of doing something on our own as well as finding strategic partners. So for example, we partnered with two companies in South America for getting Astaxanthin and Omega fatty acids and started marketing in India. We have already launched them, the market is at a very nascent stage., We are completing a new building in our Dahej for which we have spoken about the CAPEX we are incurring. There, I think most probably once it is ready, may be by the end of this financial year, we are looking at manufacturing Vitamin K1 as well. Similarly, we are working and engaging with other potential partners to bring other products. As far as our own products which are minerals and others, premixes and all are concerned, it will be a Greenfield expansion, where approvals will be involved, so it will be a little longer process.
- Moderator:** Thank you. The next question is from the line of N. K. Arora, an Individual Investor. Please go ahead.
- N. K. Arora:** My question is, we are setting up an America subsidiary in US, so have we completed the setting of the subsidiary and what will be the main benefits of this subsidiary?
- Satish Varma:** We have completed the setting up of the subsidiary, sir. The benefit is, we want to have a footprint in USA, it is the largest market. We look at it positively that currently our revenue mix only 11% comes from USA where normally maximum should be coming from USA, so there is a huge ground to be covered in US. So staying there and forming relationships there, and finding similar partners for value added formats like we did in Germany. Contract manufacturing value-added formats we are looking for opportunities there as well, so that we are at the customer's doorstep. As and when we have more steps taken and put into action, we will keep everyone informed.
- Moderator:** Thank you. The next question is from the line of Sanjit Agarwal from Littlemore Investment. Please go ahead.
- Sanjit Agarwal:** My question is, what are the management's view on getting the company listed on NSE as lot of funds are interested in the company, but are still holding back as the company has not listed in the NSE, so by when should we expect the company to get listed from the NSE?

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Satish Varma: Just last, September we finished our merger process with Fermenta and unfortunately this COVID hit, otherwise our plans were to start the process and approach and see what are the steps we need to take to get listed. So I can't give you any timelines before we engage and start on that path, but we will keep you informed. Our intention is to list in NSE as well, so as and when we understand a little better on requirements and our eligibility and everything else, we will keep everyone.

Moderator: Thank you. The next question is from the line of Jayant Shah from JS & Associates. Please go ahead.

Jayant Shah: I am Jayant Shah, an Individual Investor. Just my question is not from commercial point of view, it is only from the point of view of religion because in your presentation you have mentioned that you are obtaining cholesterol from the fish oil, so I would just like to know whether any of your raw material or finished products are obtained after killing or inspecting or doing any research on the living animals or the insects or anyone? Can you clarify this?

Satish Varma: As far as Vitamin D3 or any product that we sell, no animal killing. The cholesterol, that is the key raw material comes from sheep wool, but this is live sheep where the wool is taken out and the sheep grows back the wool, then the wool brought to the textile industry and all, when that is processed, we get wool grease and cholesterol from there. So there is no killing of any animals, Mr. Jayant Shah. As far as cholesterol from fish oil is concerned, this is after people use this fish oil to take out Omega fatty acids like EPA, DHA. . So after they take it out, we are value adding to that by taking out this cholesterol, however, this cholesterol that we take from fish oil is being sold for the shrimp and aquaculture industry. It is not being used for any other API of ours currently nor being sold in the human form in D3 or anywhere.

Jayant Shah: How many percentage you would be using for this? In terms of percentage how many percentages you would be using of fatty acid, roughly percentage of your total raw material?

Satish Varma: That is what Mr. Sumesh Gandhi was mentioning earlier.

Jayant Shah: Roughly, I want just rough estimate, nothing else?

Satish Varma: 45% of our raw material procurement is cholesterol.

Jayant Shah: And how many from this fish oil?

Satish Varma: Fish oil is just started, this is not in the 45% we are talking about, it is a separate revenue stream and a separate product stream. Currently, we just started manufacturing this product and the

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sales. May be by the end of the year, we will be able to give in percentage terms, otherwise it will be less than 1% because just last quarter, we started the sales of this fish oil product or cholesterol.

Moderator: Thank you. The next question is from the line of Utkarsh Somaiya, an Individual Investor. Please go ahead.

Utkarsh Somaiya: Could you please tell me what kind of revenue you can do at 100% capacity utilization in each of your products?

Satish Varma: As far as the human Vitamin D3 is concerned, unfortunately until our next expansion phase which is coming up the end of the next quarter comes into place, we are close to complete capacity utilization. As far as animal feed is concerned, we have much more scope, we have still not come to complete capacity utilization, but to tell you about a figure in terms of what revenue it would bring will all depend on the prices that are prevalent. As you all understand that the animal feed prices have been quite fluctuating, it is not just a recent phenomenon, it has been there for quite some time over the last 10 years or so. The fluctuation we are putting it on our investor presentation charts. So with the fluctuation it will be difficult to plug a number, but in terms of volumes I think we will be capable of going up by another 60 to 70% or more once our new product gets approved by more customers, we have capacities to take it up by another 60-70% in terms of volumes.

Utkarsh Somaiya: So even at depressed price, the worst-case scenario, we can at least go 50% higher revenue than we are doing currently in animal?

Satish Varma: Actually nice that you have asked that question. Animal currently, I think is at the rock bottom both at prices and volumes. So it should only get better, but COVID has not really helped. You will understand, the entire organized industry on consumption has completely gone down. Restaurants, hotels, banquets, weddings, the airline industry, where all the consumption is maximum, it has all gone down because of this COVID, so as and when things come back, I think we will start seeing that growth. Human anyway is growing, all of you know how important Vitamin D is, everyone is talking about it, so that growth is here to stay and it should still grow. We are just waiting for the animal side to pick up, so that both combined together can give us the boost.

Utkarsh Somaiya: Sir, when you say we can do 60 to 70% more volumes that we were currently operating at 30-40%, is that the correct understanding?

Satish Varma: On the animal side?

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- Utkarsh Somaia:** Yes, animal?
- Satish Varma:** This quarter, may be yes.
- Utkarsh Somaia:** And we should take about 12 to 18 months to reach 100% and given other things recover by then?
- Satish Varma:** If everything else recovers by them, may be 12 to 18 months maximum.
- Utkarsh Somaia:** And just one more question, after your expansion in human healthcare, what can be the revenue?
- Satish Varma:** About 25 to 30% minimum increase should be there in overall capacities.
- Utkarsh Somaia:** And that will commission in Q3, right?
- Satish Varma:** No, the plant should be ready in Q4, by the end of Q4 we should be able to start producing hopefully.
- Utkarsh Somaia:** And given the demand, you expect that that will get utilized immediately or do you expect some lag time?
- Satish Varma:** Our expectations are that it should get utilized immediately.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from Exemplar. Please go ahead.
- Nirav Shah:** I wanted to know what was the average price of human D3 in Q2?
- Satish Varma:** We cannot give an exact number due to competitive reasons.
- Nirav Shah:** No, I am not talking about your realization, I am talking about general market.
- Satish Varma:** General market vary from the human side between \$2000 to \$3000 per kg. The range will be varying depending on the customer and volume requirement, etc.. On the animal side, it is still in the \$17 to \$20 range, it has maintained in the last quarter as well, even today as we speak.
- Nirav Shah:** And assuming the steady state such pricing of animal D3 at around \$18-\$20 and this human D3 at around \$2000, so what is basically the margin difference that company achieves in both the segments?

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- Satish Varma:** If it is \$20 and this is \$2000, I think margin should be more or less similar.
- Nirav Shah:** So if animal pricing goes up, then that will be your bonus for company?
- Satish Varma:** Yes.
- Nirav Shah:** And what has been the status of our Saykha plant and by when we see that plant up and running?
- Satish Varma:** The Saykha, we have not even started, it is a greenfield project, so currently it is in the planning stage to see what all we can accommodate, which all products we can accommodate. I think our plans will be finalized by the end of this quarter and then may be Q4 or next year Q1 onwards, we should start the actual on-ground activity.
- Nirav Shah:** So by Q4 FY22, it should get ready?
- Satish Varma:** Q4 FY22 or Q1 FY23, we should have our first phase ready and material coming out of there.
- Nirav Shah:** So then our Dahej and Kullu plants which are there, that you see sufficient to keep our growth plans intact?
- Satish Varma:** Yes, in fact as I mentioned earlier by this Q4 itself we will have our expansion coming up and one more product coming up, so I think we should be good.
- Nirav Shah:** And my next question was regarding that only, what kind of opportunities you see in that Vitamin K1 business?
- Satish Varma:** It is a niche market, very few players, it is something like Vitamin D which we understand very well both in terms of handling delicate Vitamin as well as the presence in a niche Vitamin segment where very few players are there. I think the opportunity is good for us, very few players are there in the market. It is a niche market, again, it is not like Vitamin A, which is a large segment. So Vitamin K1 is a niche market, we should be able to play our role there.
- Nirav Shah:** And your target for that product is domestic only or basically it is export?
- Satish Varma:** It is both, we are present in almost 50 countries currently, so we will go everywhere with it.
- Nirav Shah:** And that product we will be starting from next quarter, right?

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Satish Varma: Q4 onwards, the plant will be ready, of course, it is a new plant, new product and this is a human pharma and dietary nutrition supplement industry, so the regulatory and the customer approvals will take time, so I won't say that sales will start the next day, but production will start most probably by Q1 of next year. We should be able to launch the product by Q1 at least.

Moderator: Thank you. The next question is from the line of Shikhar Mundra, an Individual Investor. Please go ahead.

Shikhar Mundra: Most of my questions has been answered, just wanted to know about 150-200 crores CAPEX we are doing for the new product, can you give a color on the new products, like what are those like and what is the opportunity size in those products?

Satish Varma: To start with, we are looking at minerals like for example, ferrous, that is iron based salts and calcium based salts. For that itself, the market should be only in India close to about Rs 100 crores odd, currently. We expect the market to expand dramatically because the government is looking at fortifying rice with iron along with folic acid and B12, so the market will expand significantly once that happens. So these are the iron salts we are looking at and some more calcium salts we are looking at. Then, we are looking at premixing plant where I think the current market size itself should be close to about Rs 200 odd crores. Just within the fortification of let us say, milk and oil we are talking about. Otherwise the market size is much larger and again government once it talks about making the premixing business in milk compulsory and fortified rice. They are making mandatory in the public distribution system, so there itself the premix opportunity could be as big as 700-800 crores only in the rice part of it, only in India that too. So the market opportunity is large, so it depends of how much market share and along with the market how we can grow.

Shikhar Mundra: So right now, majority of these products, are they being imported or are they being manufactured in India, the competitive scenario?

Satish Varma: As far as the iron salts are there, there are a few companies in India and there are imports as well. As far as Vitamins are concerned, I think especially the ones that are getting fortified and all, large portion of the ingredients at least get imported and premixing happens in India by both multinationals as well as Indian companies, but there are hardly 4 or 5 companies both multinationals and Indian companies put together. In this state and India especially it is in nascent stage where the market is yet to expand, so I think there is room for more players and especially players like Fermenta where we have demonstrated our capabilities.

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- Shikhar Mundra:** And what would you expect like the typical margin profile, so these must be like niche product really, so?
- Satish Varma:** Yes, it depends, if you are putting in your own ingredients, the gross margins could be higher as high as may be, 40% or 50% higher..
- Shikhar Mundra:** And for this quarter, I believe the ratio was 69 to 31 for human to animal feed in revenue and was the margin profile also similar?
- Sumesh Gandhi:** Margin profile was more or less similar in both of it as far as the EBITDA is concerned.
- Shikhar Mundra:** So when the animal feed prices are depressed at \$18-\$20, the margin profile has been similar in human to animal feed, is my understanding correct?
- Satish Varma:** At \$2000 if you are assuming the price for Vitamin D3 human and if you are assuming an \$18 to \$20 on the animal side, margins would be similar.
- Shikhar Mundra:** And the human feed prices are more or less, not so volatile, but is that answer correct?
- Satish Varma:** Yes.
- Shikhar Mundra:** Like we can expect big upside from the animal feed prices when they correct because the human feed prices will more or less stay constant and?
- Satish Varma:** You are right.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** My question relates to two things, one is the D3 price, which is corrected in this current quarter, how is the trend now and what was the reason for this decline?
- Satish Varma:** You are talking about the animal feed, Sunil?
- Sunil Jain:** Yes, animal feed?
- Satish Varma:** I think it is a combination of the demand going down which will definitely put pressure on the volumes and capacities that everyone has. I think significantly that has played a role in the prices going down, so these prices have come down, they went up almost to the high levels of

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60 in Q1, but may be by end of Q1 itself they started coming down to 18-20 and they have then stayed at that level.

Sunil Jain: So as such there was no specific reason, only thing is?

Satish Varma: Demand.

Sunil Jain: Is there any specific reason for demand to come down or?

Satish Varma: Yes, the animal feed goes into the entire meat industry that is ruminants, the cows, the pigs and the chicken. That industry itself is down, I mean during this COVID as I was earlier mentioning, the entire organized sector of hospitality is more or less down, right from hotels, restaurants, casual out eating.. Imagine the travel that used to happen world over in the airlines and how much consumption and wastage would be there. So the entire industry itself is more or less not moving anywhere, so I think that has been the most significant impact on this industry.

Sunil Jain: And these prices are still low?

Satish Varma: They are still at about \$18-20, prices are one thing, there volume more importantly is quite suppressed.

Sunil Jain: In this quarter, we had a higher interest cost, is there any one-off in that or this has got the impact of this expansion?

Sumesh Gandhi: You are right over there Mr. Jain, it is the cost of the expansion which has come in and we used to capitalize the interest earlier. There are two things, one is our cholesterol project is now ready, so the interest gets into revenue expenditure and second the CAPEX which we have undertaken right now. That is another reason why the interest cost is so high.

Sunil Jain: Full quarter, the interest has come or for the part of the quarter?

Sumesh Gandhi: Most of the quarter.

Sunil Jain: I mean to say this interest will continue as it is in the coming quarter?

Sumesh Gandhi: Yes.

Sunil Jain: Or will it increase further from there?

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- Sumesh Gandhi:** I don't think it should increase.
- Sunil Jain:** And about the working capital, we have seen some improvement in this quarter, how is the trend now, means it is likely to further improve or how it has come to a good level? Good improvement has seen from March till now.
- Sumesh Gandhi:** Are you talking about the working capital?
- Sunil Jain:** Working capital cycle.
- Sumesh Gandhi:** Working capital cycle, so it has to improve going forward because it is still being a little bit higher because of the inventory buildup which we have taken for a strategic reason, so going forward, it should improve from here.
- Sunil Jain:** So inventory you expect further to normalize?
- Sumesh Gandhi:** Right sir.
- Moderator:** Thank you. The next question is from the line of Rusmik Oza from Kotak Securities Limited. Please go ahead.
- Rusmik Oza:** I had two questions, one was on the backward integration as someone asked and you mentioned that you would get a benefit of around 20-25% on the raw material cost of cholesterol that could take your EBITDA margins to around 35%, so when can we get the benefit of this increase in EBITDA margins from Q3-Q4 or it will start from next fiscal year?
- Satish Varma:** Maybe not correct, I must, may be just clarify that point. We were not talking about 35% EBITDA margins, what we said was 45% of our raw material purchases was cholesterol. Based on that, the gentlemen had assumed that your raw material cost of cholesterol will come down to 35% of your overall purchased cost. It will not directly impact our EBITDA by that much, I think there must be some misunderstanding on that.
- Rusmik Oza:** And sir, second question was on that 150-200 crores greenfield expansion that we are aiming to do, may be after 2-3 years what could be the sales to gross block ratio or sales to gross capacity ratio that we can assume coming from this project?
- Satish Varma:** Overall, we assume that we should be able to maintain that 20 to 25% EBITDA margins going forward in the next 4 to 5 years. The revenue stream from the existing business and the new business in the next 5 years or 6 years should be close to may be 50:50 or something like that

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or the current business slightly more. But otherwise overall we expect to maintain the 20-25% margins in our overall revenue earnings.

Moderator: Thank you. The next question is from the line of Viraj Mahadevia, an Individual Investor. Please go ahead.

Viraj Mahadevia: Just a re-clarification again on the margin point, so you mentioned that of the raw material cost, 45% is cholesterol and on that we would have 20 to 25% savings, so if I run the numbers, it means that backward integration, my EBITDA margins could go as high as 32 to 33%, may be not 35 because I think there was like misunderstanding there and also you know your past cycle margins in FY19 for the full year was 35%, so do you see your sales getting closer to the 33 to 35% EBITDA margins over may be next financial year, FY22?

Satish Varma: It will depend on the animal feed prices, how they would support the overall mix because it is not a small portion of our overall business. If you look at FY19, which you are referring to, I think the animal feed business contributed more than 56 or 57% in FY19.

Viraj Mahadevia: Prices were high?

Satish Varma: Prices were high, so I think it depends on how the prices will be there. Volumes, we are sure we will be able to match and maintain or increase our volumes contribution, but on the prices I think it will depend on where the prices are at that time.

Viraj Mahadevia: And are you seeing a trend upwards in prices in animal feed after these quarterly results, generally, what is your sense in the last month or so? For example in China, we have seen the pig herds have increased massively in the month of August, over the month of August and September, so hopefully that should lead to an increase in demand for animal D3?

Satish Varma: Hopefully, but we have still not seen it on the ground Viraj. It is still being maintained at the same levels.

Viraj Mahadevia: And my last question is on the vitamin K that you are coming on stream data this financial year, will that be sold to the same set of customers, i.e., our customer is already asking for these product and it is the function of having this product ready and selling it to them, so it is an easy sale, was it a completely different set of customers, and you have to build back over time?

Satish Varma: It is the same set of customers, actually we developed the technology, on request of one of our largest customers actually.

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Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors for closing comments.

Satish Varma: Aiysha, I will take over.

Moderator: Yes sir.

Satish Varma: Thank you all for participating in the earnings concall. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our Investor Relation managers at Valorem Advisors. Thank you very much everyone for your time.

Moderator: Thank you sir. Ladies and gentlemen, on behalf of Fermenta Biotech that concludes the conference for today. We thank you for joining us and you may now disconnect your lines.

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