

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.

Tel. : +91-22-6798 0888 Fax. : +91-22-6798 0899

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



Ref: F.No.: 49

August 24, 2021

Corporate Relations

BSE Limited,

Phiroze Jeejeebhoy Towers,

Dalal Street, Fort,

Mumbai – 400 001

Sir,

Ref.: Code No.: 506414

Subject: Transcript of Conference Call held on August 17, 2021, 11:00 Hrs IST to discuss the financial performance of the Company for the quarter ended June 30, 2021 i.e. Q1FY22

We hereby enclose the Transcript of Conference Call with Analysts / Institutional Investors held on August 17, 2021 at 11:00 a.m. (IST) to discuss the financial performance of the Company for the quarter ended June 30, 2021.

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]

A handwritten signature in blue ink, appearing to read 'Srikant N Sharma', is written over a light blue horizontal line.

Srikant N Sharma

Company Secretary

CS Membership No: F3617

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

Encl. as above

Factory : Village Takoli, P.O. Nagwain,
Dist. Mandi - 175 121, Himachal Pradesh, India.
Tel. : +91-1905-287246 / 48 / 49
Fax: +91-1905-287250
Email: info@fermentabiotech.com
Website: www.fermentabiotech.com

Factory : Z - 109 B & C, SEZ II, Dahej,
Taluka - Vagara, Dist: Bharuch - 392 130,
Gujarat, India.
Tel. : +91-2641-291440 / 444
Email: info@fermentabiotech.com
Website: www.fermentabiotech.com

Transcript

Fermenta Biotech Q1FY22 Results Conference Call

Event Date / Time : 17th August 2021, 11:00 Hrs IST

Event Duration : 57 mins 49 secs

Presentation Session

Bharati: Good morning, ladies and gentlemen. I am Bharati, moderator for the conference call. We welcome you all to Q1FY22 conference call of Fermenta Biotech Limited hosted by Aditya Birla Money. This conference call may contain forward looking statements about the company, which are based on the belief, opinion, and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participants will be in 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 star and zero on your touch tone telephone. Please note this conference is recorded. I would now like to handover the floor to Mr. Sumeet Shah of Aditya Birla Money. Thank you and over to you sir.

Mr Sumeet Shah: Yes, thank you, Bharati and good morning everyone. On behalf of Aditya Birla Money Limited, we welcome you all to Q1FY22 earnings con call of Fermenta Biotech Limited. From the management side today, we have Mr. Prashant Nagre, Managing Director, Mr. Satish Varma, Executive Director, and Mr Sumesh Gandhi, CFO. Without much delay, I will now hand over the floor to the management for opening remarks followed by the interactive Q&A session. Thank you and over to you sir.

Mr Satish Varma: Thank you so much. This is Satish Varma here. Good morning everybody. It's a pleasure to welcome you all to the earnings conference call for the first quarter of the financial year 2022. I hope you are all keeping safe and well under the current circumstances. I am joined on this earnings conference call with our Managing Director Mr. Prashant Nagre and our CFO Mr. Sumesh Gandhi. I am pleased to inform you that the company has been recognized as India's "Best work places in Biotechnology and Pharmaceuticals" by Great Places to work. Also, it is my pleasure to let you know that Mr Prashant Nagre, our Managing Director, has been felicitated with the award for India's best leaders in times of crises for 2021. In addition to that we were recognized for "HR leader award for commitment to creating great places to work" and "commitment to being great places to work" in India were also received in the year 2021. Let me now ask Mr. Nagre to give the operational highlights followed by Mr. Gandhi to give the financial highlights. Thank you so much.

Mr Prashant Nagre: This is Prashant Nagre. Thank you, Satish. Good morning everyone and welcome to the company's earning call for quarter one financial year 2022. First of all, it is a privilege for us to be recognized by Great Place to Work with the prestigious awards that were mentioned by Satish. Let me give you some key highlights for this quarter. We have completed the capacity expansion in Dahej Plant, which will

increase our capacity on human nutrition by around 20%. I am happy to state that the company had a healthy financial performance in Q1 as compared to the last quarter and the same quarter last year. The volumes of human nutrition have grown by around 70% on year on year and 13% on quarter-on-quarter basis. However, the volumes of animal nutrition have seen a decline of around 64% year on year and 11% quarter on quarter basis. We are hopeful that with the opening up of the economy around the world, the volumes on animal nutrition should see an increase in the future. Human nutrition has always been our forte and we are now seeing the revenue ratio of vitamin D3 between human nutrition and animal nutrition move from 47 : 53 in quarter one financial year 2021 to 77 : 23 in quarter one of financial year 2022 in favor of human nutrition. Now, I request Mr. Sumesh Gandhi, our CFO, to give the financial highlights. Over to you Sumesh.

Mr Sumesh Gandhi: Thank you so much Prashant. Good morning everyone. I am Sumesh Gandhi over here and I would like to thank you for joining this call today. Brief financial highlights for the quarter ended 30th June 2021 on a consolidated basis are as follows: The revenue from operations for the quarter was at 110 crores, which was an increase of approximately 16% on a year on year basis and 10% on quarter on quarter basis, Operating EBITDA was 26 crores, which was an increase of about 15% on a year on year basis and more than 100% increase on a quarter on quarter basis. Operating EBITDA margin stood at 23.45% for the quarter FY22. Net profit after tax reported was about 11 crores, which was a decrease of 17% on a year-on-year basis, but an increase of 53% on quarter-on-quarter basis. The PAT margin stood at 10.31%. Having said that, it is important to note that the benefits of section 10AA under the income tax act for the SEZ unit ceases to exist for FY22 and hence the difference between the normal tax and the MAT shall be utilized from the accumulated MAT credit and would be shown as additional charge to the deferred tax asset. Consequently, the tax charge and the PAT in this quarter is not comparable to that of the previous quarter. Thank you everybody and with this, we can now open the floor to the question-and-answer session.

Bharati: Ladies and gentleman, we will now begin the question-and-answer session. If you have a question, please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing star and one again. Ladies and gentleman, if you have a question, please press star and one on your telephone keypad. Ladies and gentleman, we will wait for a moment while the question queue assembles. First question comes from Shashikant from Prometheus Strategy. Please go head.

Mr Shashikant: Hi, good morning, can you hear me?

Mr Prashant Nagre: Yes.

Mr Shashikant: Hello?

Mr Prashant Nagre: Yeah, we can here you.

Mr Shashikant: Yeah, good morning Prashant and team. Thank you very much for having this call, so could you just throw some light on the animal feed vitamin D business that continues to kind of be weak and then how do you think the turnaround will

be visible in your opinion? And a second question goes back to your July investor presentation where you did have some price chart on, you know, vitamin D ingredients for animal feed and it shows a kind of 2017-18 a big uptake in prices and then, you know, collapse in 2019 even before COVID, so maybe if you can give some historical trend on how these things work and how we can understand as an investor, thanks.

Mr Satish Varma: Sure, Prashant I'll take this question?

Mr Prashant: Please sir.

Mr Satish Varma: Yeah. Thank you Shashikant, I think I will answer the second question first.

Mr Shashikant: Sure.

Mr Satish Varma: As far as the price fluctuations that you see in vitamin D3 animal feed grade, you must be seeing our investor presentations, which we release every quarter, where we have a sheet, which shows the price trend since 2012.

Mr Shashikant: Right.

Mr Satish Varma: The fluctuation has normally been between about 30 dollars to even as low as 6 dollars...

Mr Shashikant: Right.

Mr Satish Varma: ... until 2017. 2017 was an exceptional year, I mean, second half of 2017, which continued until even 2019 as well or may be even the first quarter of 2020 as well.

Mr Shashikant: Right.

Mr Satish Varma: One of the main reasons we understood at that time was China was going through a massive closure of industries because of the environmental issues. It just did not happen in vitamin D3 alone, you must have noticed in a lot of other APIs as well. That was the period where factories were being shifted, factories were being shut down. That was a large reason. However, if you notice the trend after that over the last, let's say, five-six quarters, the pandemic has severely impacted the offtake and the consumption. One thing is obvious so far is that the market dynamics have changed. Hopefully, we will not see the lows, what we have seen before 2017. We expect the fluctuation to be there. The animal feed business is commoditized. Fermenta might be enjoying at the most about 5% share in the global animal feed market. China dominates this place. We don't have any control on that, and we have seen the fluctuations mainly being driven from China, either because of factory closures or new players coming in recent years based on that, we don't have any control over that. Over the last seven to eight quarters, there has been apart from the pandemic which severely impacted consumption itself from the meat industry and the animal market as a whole, there has been a severe swine flu attack on the pig population, which constitutes a large customer base, especially for Chinese produced material because most of the market is in China. That also impacted the consumption and thereby the availability of the material. The African swine flu is slowly getting over with and hopefully the pandemic,

unfortunately the third and fourth wave that we are seeing across the globe in other countries is not really helping much, but we are hopeful that the volumes will pick up to what it was earlier, and the price fluctuation will be there, but hopefully, we will not see the same lows that we have seen prior to 2017. We have, we feel that we are quite insulated from two things; one is, of course, we feel we are competitive enough in terms of playing both the highs and lows, and especially the low prices because of the backward integration as well as our technical efficiencies that we have on the production of vitamin D3 in which we have experience of several decades. In addition to that, we have a very, very healthy market share on the human side as well, which should be close to 25% or above the global market share. So, combination of this will give us strength to play both those cycles. We have enough infrastructure to produce and maintain our market share, may be even grow a little and sustain the cycles, so whether the prices will go up next quarter or not, absolutely difficult to answer Shashikant.

Mr Shashikant: Sure. That's really helpful. May be just a follow-up question on that would be there is no structural hit to animal feed ultimate demand, it's not cyclical, factors that have all come together be it swine flu or COVID related impacts and wiping out the animal feed demand that has been hit globally, as they come back would it be reasonable to assume the demand and prices would improve?

Mr Satish Varma: What I would like to answer on that is that as I said prices is something which we fail to understand how the prices fluctuate and what drives the Chinese to fluctuate the prices so much. As far as volumes are concerned, unfortunately at least for the last as I said six-seven quarters, volumes have been inconsistent. As and when there is an increase in volumes on the animal feed side, we would be able to utilize our capacities. Unfortunately, the last six-seven quarters the volumes have been also impacted because of the pandemic and this African swine flu, it should come back over the next, I don't know, again it depends on the pandemic how strong it is and how long it lasts, but it should come back, the animal, the meat consumption is not going down in the world.

Mr Prashant Nagre: Yeah Satish, I will just add one piece of information for Shashikant. Yes, you are right Shashi, I have been mentioning that, structurally in animal health, okay, in terms of the business in animal health, there is no change. The number of people who are alive on this planet remains pretty much the same. So, there is no structural change, these are cyclical things, the reaction, the restaurant closures and all the entire commercial market getting impacted, but it will shift. So, as in the, the nature of the animal feed is also redefining itself, so we anticipate that there is no disruption to that, and it should normalize sooner than letter.

Mr Shashikant: Okay. Great. That's absolutely helpful. Thank you.

Bharati: Thank you, sir. Ladies and gentleman, if you have a question, please press star and one on your telephone keypad. Next question comes from Sunil Jain from Nirmal Bang Securities. Please go ahead.

Mr Sunil Jain: Yeah, thank you very much for this opportunity and congratulations for good numbers. Sir, I have got two-three questions. First is what is the current capacity utilization excluding whatever the expansion which we have done, what is the current capacity utilization and second is related to that is now, see we have increased the capacity by 20%, so when you expect that to get utilized?

Mr Satish Varma: Current capacity utilization on the human side, Sunil, is close to 100%. That gives us confidence that this 20% should get utilized and the 20% we are doing is mainly on again the human side. Should get utilized within the current financial year hopefully. I hope that answers your question.

Mr Sunil Jain: Yeah, yeah. So, human capacity utilization what I understand that that is separate from it or it's fungible?

Mr Satish Varma: Upto a certain stage it's fungible. So, the drop in demand on the animal volumes has definitely helped us divert that much of the intermediate to the human side.

Mr Sunil Jain: Yeah.

Mr Satish Varma: But yes, we still do have enough capacities at that level to satisfy our animal side requirements to maintain our market share.

Mr Sunil Jain: Okay. So, if it is, there is a good demand come up for animal side so you don't have to divert your human D3 to that area ?

Mr Satish Varma: Yes, unless and until it is much more than our market share that we are getting. That opportunity so, always will be depending on the prices.

Mr Sunil Jain: Yeah.

Mr Satish Varma: That is one factor we will look at when we allocate between these two divisions and number 2, of course, normally the human side has a higher weightage because it's a long term, more sustainable business and customers are not the same, these are pharma companies mostly, and food companies, which because of the regulatory requirements, normally they stay rather than just keep jumping up and down between suppliers. So, human side normally has higher weightage, but of course prices will also play an important role in our decision when we divert the material.

Mr Sunil Jain: And in the human side, what could be the growth in FY2021, pure human side excluding animal?

Mr Satish Varma: On the volumes, one second.

Mr Sunil Jain: Yeah.

Mr Prashant Nagre: Sumesh, can you just quickly....

Mr Satish Varma: Q1 volumes, you want year on year? Year on year it has been about 70%.

Mr Sunil Jain: You had already said, it's 70% or something.

Mr Satish Varma: 70% year on year we have seen the growth in volumes

Mr Sunil Jain: Yeah, that is Q1, but FY21 if I can get some feelings....

Mr Satish Varma: FY21, was close to about 70%. I think 60% odd was based on volumes may be, just below 70%, between 60% and 70% was because I don't have the numbers in front of me, between 60 and 70% was on the volume. I think total 70% was put together volume and price combination.

Mr Sunil Jain: So, whatever the extra growth we got in FY21 part of that could be because of COVID, so how you see growth in human side from an organic growth perspective, what can we see?

Mr Satish Varma: I will request Prashant to address this question.

Mr Prashant Nagre: Yeah, so I think because I have the numbers in front of me, so Satish is absolutely correct in mentioning that you wanted to know over the last year what was the growth, it is close to 70%. So, growth on volumes was about 70%. Now, yes, it was mainly driven by COVID, but not only COVID per se because we, all the years we have been continuously kind of taking measures to, kind of, do the debottlenecking or invest in incremental capacities and all, so we had just additional volumes, which could go and network. In almost, we are presenting 300 countries across all the six continents and we also had geographic expansion, customer expansion in addition COVID. COVID did help. What we feel is that the COVID will kind of fluctuate between an epidemic and pandemic, and COVID is nowhere kind of going to go away in a short term that is what is our understanding, but what it has done, is that a lot of research has happened on vitamin D3 and that has changed fundamentally the consumer behavior. People know that it is extremely essential, not only to follow the precautions, but also improve the immunity. Vitamin D3 plays an important role in improving the immunity. So, I think we expect that it should remain in double digits. It obviously cannot grow 70% year on year, it is not sustainable number, but we feel that it will be strong number in double digits. That is what we internally feel, and I think we are seeing that scene continuing. So, that's my answer on that. I hope Sunil, I have answered your question.

Mr Sunil Jain: Yeah, yeah. Great, great. Thank you very much and with respect to animal D3, so you had given indication for Q1 prices, so how it is behaving in current quarter? It's similar level or it has shown some improvement?

Mr Satish Varma: There is not much change. Pretty stable.

Mr Prashant Nagre: They firmed up and then they stayed there.

Mr Sunil Jain: Okay. Fine. Great, thank you very much.

Mr Prashant Nagre: Thank you, Sunil.

Bharati: Thank you, sir. Ladies and gentleman, if you have a question, please press star and one on your telephone keypad. Next question comes from Keshav Kumar from Raksan investors. Please go ahead.

Mr Keshav Kumar: Hi, Sir. Thanks a lot for taking my question. Sir, are the human vitamin D prices structurally much more stable compared to animal?

- Mr Prashant Nagre:** Yes, the answer is yes.
- Mr Keshav Kumar:** So, what are the current prices?
- Mr Satish Varma:** Our current declared prices in India are close to about 2 lakhs per kilo.
- Mr Keshav Kumar:** Okay. Alright, sir. Sir, second question is pertaining to the CapEx. If I see the balance sheet, there is a sizeable increase in the property plant and equipment and even in CWIP. So, sir, what exactly is it apart from the 20% capacity expansion for human vitamin D? What all are apart from that we are doing?
- Mr Satish Varma:** Sumesh, can you please.
- Mr Sumesh Gandhi:** Yeah, can I take this question? Thank you so much Satish. So Keshav, what we see the property plant and equipment increase which has come is because of the backward integration which we did and which we completed in FY21, so in FY21 we saw a substantial increase coming in which was close to 60-65 crores.. What we see in CWIP, around about 35 crores out of it, is in relation to the capacity expansion which we talked about and which got capitalized in the first quarter of FY22.
- Mr Keshav Kumar:** Okay, so backward integration would be for Cholesterol, right?
- Mr Sumesh Gandhi:** Yes, absolutely right.
- Mr Keshav Kumar:** Okay and are we completely decoupled from China after this?
- Mr Prashant Nagre:** Can I take this question?
- Mr Satish Varma:** Sure, Prashant.
- Mr Prashant Nagre:** Yeah. So, Keshav ji we have the policy that we have had for the last 10 years, the world now has the policy that you should decouple from China, which is post pandemic, but I think the company we build is in the last 10 years we were never ever dependant on China for any of our starting materials, neither do we sell to China, so that way we are completely out of China. So, we are not dependent on china, ever in the last decade.
- Mr Keshav Kumar:** Okay, alright sir. Sir, so in the animal feed prices as you mentioned that during around the time 2017-2018 where China was coming up with their environmental norms and all, every industry was seeing commodity price hikes, so animal feed prices, it's sort of indicated that China is the sort of dictates that market, but how is the human vitamin D market structured because we have a sizeable market share of 20% globally, so are we, like, do we dictate the prices, are we the price makers of how is the global market structured, could you sort of shed some light on it sir please?
- Mr Prashant Nagre:** Satish.

Mr Satish Varma: Yeah. On the human side, Mr Keshav there is, you must be aware that there is a European company which is into vitamin D3. There is only one company, other than China and Fermenta in India, that is one European company which manufactures and sells vitamin D3. They have a large market share of about 35% or higher market share on the human side. They are fully integrated, not just fully integrated in the terms of the market of vitamins, but they have value added business, where they might sell of course vitamin D3 on its own, but they have a large portion of vitamin D3 business when they mix it with other vitamins and sell the whole basket, in their entire portfolio. So, they are at a certain price range, which is a premium to not only China, but also to ours. We are at a lower bracket than them, but we feel that we are at a higher bracket than China. Sometimes we compete with the European company, depending on what kind of customer it is and what kind of regulatory pathway we need to follow, especially if it is US, it is a pharma company, if it is Europe, then we are more competing with the European Company. If it is a little less regulated market and all, then we might end up competing with the Chinese.

Mr Keshav Kumar: Okay. So, am I right to assume that the animal vitamin D would be more commoditized because if we have less stringent regulations and like this human vitamin D3 would be more specialized and more so the regulatory hurdles would be more?

Mr Satish Varma: One of the reasons. And also, the volumes if you see between animal and human is most probably a 20-80 split: 20 towards the human requirement and 80 towards the animal requirement. This is typical of most vitamins. So, such large volumes and if you can just imagine the price fluctuations between a 6 dollar and 30 dollar, what kind of money is there along with those volumes.

Mr Keshav Kumar: Absolutely, Sir. So, Sir, this 20-80 split, it would be quite an opportunity also for us because of COVID also and also, like vitamin D deficiency known to be a global pandemic in itself. So, do you foresee a play in the next five years, a sizeable growth coming from the entire market of your human vitamin D compared to the animal?

Mr Satish Varma: We do... See, over the last ten years itself we have seen a tremendous growth in the overall market size of vitamin D3. Based on the research article, even before COVID, based on the research article that were coming in terms of use of vitamin D3 for general immunity. You would have started seeing right from chest physicians, but earlier it was mostly orthopedicians, but then right from chest physicians to everyone prescribing, even for diabetes also vitamin D3 could be prescribed. This we have been seeing for the last ten years. If you see in general, like for example, Indian population, 90% of them are deficient in vitamin D3. Global population, not less than 70% on a whole if you take. So, it has to grow. Now, how quickly it will grow and whether it is four years -five years or six years and the percentage it will grow. We are internally as Prashant has mentioned earlier confident that it should have a double-digit growth growing forward as well over the next few years minimum.

Mr Keshav Kumar: Okay, alright Sir. Can I squeeze in this one quick follow up?

Mr Satish Varma: Sure.

Mr Keshav Kumar: So, Sir, I just wanted to understand that when Vitamin D product is made, say vitamin supplement bar, so does that fallen, it must be falling under Human API?

Mr Satish Varma: Yes, you are right.

Mr Keshav Kumar: You will be following stringent regulations, as it would, like if you were supplying...

Mr Satish Varma: Not as a, most probably, see, as far, it depends on where you are, may not as stringent as a pharmaceutical, but definitely stringent enough.

Mr Prashant Nagre: So, Satish, I will just come in because Keshavji it is very important to understand the geography we are discussing here. In India the differentiation between pharma and dietary nutrition supplements and food, ok this is food, the example you gave, a bar is a food. So FSSAI, India has all the regulations, so we also, now in India are pretty advanced on the regulation, so, yes, there will be entry barriers and there will be specific kind of rules. However, when you go to America, it is US FDA, which has got two departments; one is pharma and the second is dietary supplement and food put together under CFR. So, there are different regulations there. So, it is again pretty stringent. So, it is almost very close to way the pharma, but not exactly pharma and it is also auditable, so we as a company are completely qualified to support the food and dietary nutrition supplement in Europe as well as in US. So, we have to look at the segment and we have to look at the geography to understand how it is, so in short, if you want to know that whether it is complicated and it is based on certain approvals, yes, the entire market is. Because if you take in consideration food under infant nutrition, it has got very, very stringent regulations, even higher than probably the pharma. So, it is regulated. Most of it is regulated, our company has all the approvals to sell in all geographies and all segments.

Mr Keshav Kumar: Okay, great Sir. Great Sir. Thanks a lot, sir. All the best for this quarter and for the year.

Mr Satish Varma: Thank you.

Bharati: Thank you Sir. Ladies and Gentlemen, if you have any question, please press star and one on your telephone keypad and participants are kindly requested to restrict with two questions in the initial round and may join the queue for further questions. Next question comes from Nikhil Shetty from BP Equities, please go ahead.

Mr Nikhil Shetty: Thanks for the opportunity. So, I just wanted clarity on gross margin because of contribution from fish oil and cholesterol our margin declined substantially in Q4, but in Q1 we can see similar contribution for the fish oil cholesterol and our margin recovered to the previous level. So, what is leading to this improvement, Sir?

Mr Satish Varma: We started making margins in fish oil, Nikhil. Fish oil as we last

time also mentioned during our call was our entry point last year and also development cost also, production costs also was higher because of that. So, business has come on stream. So, that started contributing rather than taking away from the margins.

Mr Nikhil Shetty: Okay.

Mr Prashant Nagre: And in addition, Sorry Nikhil, in addition we also saw that we have better realizations from the market.

Mr Nikhil Shetty: Okay.

Mr Prashant Nagre: So, internal as well as external reasons both contributed.

Mr Nikhil Shetty: Okay. So, can you give us a ballpark number of, I mean the overall margin in the, you know, fish oil cholesterol whether it is in line with the overall margin, is it higher or lower?

Mr Sumesh Gandhi: I will just address this question. So, Nikhil it is in line with the overall margin.

Mr Nikhil Shetty: Okay. So, my next question is, we are adding production, products on the food fortification sides. So, how do we see this side to grow in next two to three years?

Mr Prashant Nagre: Satish, should I take this call?

Mr Satish Varma: Yes, please.

Mr Prashant Nagre: So, Nikhil, thank you for asking this question because I think it is very important in light of what is happening in our country. On the 15th of August from the Red Fort the Honorable Prime Minister made a very clear indication that all the rice by 2024 would be made available to the entire population, which is, the vulnerable population will be fortified. So, similarly, the other fortified staples which is like for example, oil as well as milk. FSSAI came out with a complete guidance on them as to how they should be fortified, how much concentration of all the nutrients should be added to them, in 2018 policy. So, I think clearly in India, after 75 years of Independence, we still see that nourishment and the nutrient kind of deficit in the vulnerable population is quite significant, it's called hidden hunger. So, the entire focus of the Central Government now is in line with support of the state is to improve that nutritional deficit. And we feel that fortification is a very important step in doing that besides having a very balanced diet. However, the question with the vulnerable population is where do we get that? So, we feel that fortification is going to remain and we are going to participate in second fortification and that's where entry into the oil fortification and linked with that is milk will happen. I hope I answered your question!

Mr Nikhil Shetty: Yeah, can you give us a number, Sir? I mean how big this can be for Fermenta?

Mr Prashant Nagre: It is very difficult to put just a number because I think it is all policy level changes which are happening. What we are doing is getting the capabilities in place and getting the penetration done. For example, in case of oil, already the packaged oil is getting fortified, so we have kind of entered that segment that is more predictable than others and the others are all under pipeline of getting implemented. So, difficult to state a number currently what we will be there with, but it will be a market where we will participate with not only with vitamin D3, but also combination and premixes with the other vitamins. So, we are being very optimistic and focused and dedicated to providing the quality suppliers because we come from pharma, providing products of value-added nature in this field which will be of quality ingredients will be very vital for success of this project and that's why Fermenta is committed to this, particular initiative. And anyway, just to tell you the volumes are definitely going to be big because the fortification is not the people who are still getting it, it is the general population, as it is food. So, the quantities there are pretty large. The quantity of fortificants is very small, but overall, it is a sizeable chunk.

Mr Nikhil Shetty: That's it from my side. Thank you and all the best.

Mr Prashant Nagre: Thank you Nikhil.

Bharati: Thank you Sir. Ladies and gentlemen, if you have any question, please press star and one on your telephone keypad. Next question comes from Shanti Patel from Shanti Patel Investments Advisors. Please go ahead.

Mr Shanti Patel: Sir, what my question is. During the, I mean, what we are expecting for FY 21 and 22, that means 31st March 22, what is the approximate return on capital and return on equity and what will be our profit margin that is stake margin approximate?

Mr Sumesh Gandhi: : Can I take this?

Mr Satish Varma: Yes, please.

Mr Sumesh Gandhi: Shanti ji, I am sorry, but we do not give any forward-looking statement at any point of time, so it will be very difficult for me to state anything as to what the margins would be as on 31st March 2022. However, we still continue to state and we stick to that, that for a period of long term which is five years or something. We are looking at the CAGR growth of 15%, which is there on the revenue, on the top line with an EBITDA margin of around 25%.

Mr Shanti Patel: Okay. Okay. Thank you, thank you sir.

Bharati: Next question comes from Madhav Kondapalli from Shastra Capital. Please go ahead.

Mr Madhav Kondapalli: Yeah, good morning and congratulations for good numbers sir.

Mr Prashant Nagre: Thank you, Madhav.

Mr Madhav Kondapalli: I have two questions sir. Question number one is on the Fermenta USA. So, I think almost it's nine months now after acquiring the company, so I would like to listen from you how we are progressing there, actually what is the target for the next one to two years from this acquisition?

Mr Sumesh Gandhi: Satish, Prashant, do you want me to first put in the financial numbers for this quarter and then take it across, from an understanding point of view, what it is.

Mr Satish Varma: Yes, Please.

Mr Sumesh Gandhi: Yeah. So, from the acquired company in this quarter we had the top line of approximately 9 crores coming out of it. And EBITDA of around about 72 lakhs from the acquired company. Yeah, so and majority of it, it's something which has happened in this quarter. I think so, from a business perspective Prashant, do you want to talk about it?

Mr Prashant Nagre: Yeah, so Madhav ji, the US company and the plan for this company and the reason for acquisition in the future, this was a distributor whom we used to distribute our animal feed that is what he was doing for a very long time. We saw that America is one of the largest feed consumption markets in the world, very organized and we have direct connection with all the end customers through this distributor, that's why we went ahead and invested in this company and the acquisition. Currently, we have already at the beginning of this call spoken about the vitamin D3 feed grade market and the current difficulties that is there because of pandemic and now America is also in the wave 4, and that has continued to impact the entire retail business of the meat that is restaurants and all and therefore, pressure on the animal feed. However, our focus has been on this business in a long term, so it cannot be looked at in quarter-to-quarter basis, so we feel that America will remain to consume meat, will remain a strongest exporter of meat as well and the animal feed segment therefore will be strong. We have approvals and we have access to all of them now, it's our own company there and we are growing in our relationship stronger, every passing day because of this. The entire new company has been launched to all the customers that we are committed to the American market that is one. The second part in the American business is now that we have acquired the company, we have also over the last one-one and a half years started focusing on human nutrition also. And on human nutrition there are large companies on dietary and nutritional company, like the Walmarts and Walgreens and the CVS and all and they have range of products which they buy on vitamin. Because they have gelatin capsules which they make in their country and the raw material, so we have started getting qualified. We should be qualified to a large number of those customers there and we feel that as we go forward, the human nutrition which was almost zero or negligible in the last few years, now it is our own company, we have started investing in that portfolio there and we have got approvals, we have started business also and this year financials will see a healthy contribution from the human nutrition. Going forward, the American

dietary and nutrition market is many many times bigger than India and slightly larger than the European market. We feel that being present in America gives us the access to that market and at one point in time we will also start manufacturing value added products in USA on contract manufacturing basis. So, that's the future outlook of this. I think we are very confident with the enthusiasm that we have within the company structure to make sure that this plan going forward. So, I think Fermenta USA is on track as far as the long-term strategy understanding.

Mr Madhav Kondapalli: Yeah, I think by the end of this year it will, the margins will be normalized with our gross margin will be normalized with our Indian operation?

Mr Prashant Nagre: We hope so, sir. We hope so.

Mr Satish Varma: Madhav, you should remember that Fermenta USA is not a manufacturing company like we are. It is more a distribution marketing company. So, margins, you know, vitamin D3 especially on the human side, we enjoy pretty different margins.

Mr Madhav Kondapalli: But ultimately you have been supplying the product from here, you know, sir, it should be in line with our country margins.

Mr Satish Varma: You cannot take margins of two places, you know. You cannot expect that you will take margin in India as well as and again you will have a similar type of margins there in your own company before you give outside. It won't work like that.

Mr Madhav Kondapalli: Together once it's consolidated it will be in line.

Mr Satish Varma: Of course, as a consolidated basis, you will always enjoy the margins that we are currently enjoying. On a consolidated basis, you are absolutely right.

Mr Madhav Kondapalli: Yeah, thank you, thank you for answering that query. Then, the second questions is on the other nutrition product, actually I think we have been working on there almost one-and-a-half to two years on the other nutrition product, so how we are actually progressing on this, sir?

Mr Satish Varma: We have launched as we mentioned in our presentations as well, like e.g., omega fatty acids, vitamin A and D, or oil fortification, Astaxanthin, these are products, which we have already launched. We are going to manufacture premixes for which the work has already started, but it's again manufacturing, so capital is involved in that, that will take time; maybe hopefully in another 12 months, we should have our premix plant also up and ready, so that will give a much larger basket.

Mr Madhav Kondapalli: Are we going to do FRK, sir? This fortified rice kernel is going to be a part of portfolio?

Mr Sumesh Gandhi: Hello, hello, Prashant...

Mr Prashant Nagre: Pardon, Sir? What was the question? The line was slightly not good.

Mr Madhav Kondapalli: Yeah, I am saying sir, this fortified rice kernels is going to be part of our portfolio?

Mr Prashant Nagre: We are evaluating that. Satish, he is asking is fortified rice kernel going to be part of our portfolio.

Mr Satish Varma: We are working on that. We are looking forward to adding it to our part of a portfolio.

Mr Prashant Nagre: The work is on

Mr Madhav Kondapalli: Yeah, please, go ahead sir.

Mr Prashant Nagre: No, I said that work is on Madhav ji.

Mr Madhav Kondapalli: Okay, okay. That's it, sir. Thank you, thank you very much. All the best sir.

Mr Satish Varma: Thank you.

Bharati: Thank you Sir. Ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. Next, we have a follow-up questions from Mr Shashikant B from Prometheus Strategy, please go ahead.

Mr Shashikant: Hi, thank you for taking my follow-up question sir. I think a typical Capex trajectory at current price point for vitamin D3 is you have to achieve 100 crore revenue, what is the incremental Capex that you need for it to work, to achieve a certain amount of turnover? What kind of, you know, Capex you will need for one crore of turnover.

Mr Satish Varma: See, it is currently under evaluation Shashikant Ji, because it is difficult to mention at this stage, I will tell you why. Number one, we cannot do any more after what we have done so far over the last year-and-a-half to two years in Dahej. We cannot do any more incremental capacity increase; we are out of space in our existing plants or piece of land where we are having current infrastructure. Whatever we do needs to be a green field project. Of course, we have land and environmental permissions already with us in our Saykha, where we have taken about 10 acres of land or so. Now, we are currently evaluating what all will come there in terms of products baskets. So, whether the entire load or how much of the load goes on to the...because it is a green field project right from scratch, what load goes on to which project will determine and how many project we will put inside, what is the total Capex we put inside will determine what will be the load that will come on to, e.g., D3 part of it. We do intend to expand D3 also there, so whether it is going to be 1:1 or whether it is going to be different from that, we will have to see. The more projects we put in will definitely bring the ratio down, I mean the basket mix that we put in there.

Mr Shashikant: Got it, but if it's 1:1 assuming a range of products just to understand how your equation will work out to get us incremental revenue?

Mr Satish Varma: I think the best thing, best guess we can do is based on the current...what we have in the existing experience, so it should be around...100 crore investment should give you definitely close to 100 or more in terms of revenue.

Mr Shashikant: Okay, okay. Got it. Okay. Great. Thank you very much, thanks.

Bharati: Thank you Sir. Ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. Next, we have a follow-up questions from Sunil Jain from Nirmal Bang Securities. Please go ahead.

Mr Sunil Jain: Yeah. Thank you for taking my question. Sir, my question relates to the last expansion pertaining to backward integration we have done. So, can you suggest how much is outside that of cholesterol?

Mr Satish Varma: How much is outside?

Mr Sunil Jain: Outside purchase of cholesterol or it is 100% totally consumed.

Mr Satish Varma: Sunil, we have two streams of cholesterol that we have, one is the backward integration we have done which is based on wool grease that we purchase and manufacture our own cholesterol. Entire thing is used for captive.

Mr Sunil Jain: Okay.

Mr Satish Varma: We have cholesterol that is being manufactured from fish oil extracts, fish oil after omega fatty acids are taken, we take the residue and manufacture cholesterol out of that. That is completely 100% being sold in the aquaculture market currently. So, there are two separate streams.

Mr Sunil Jain: Okay. So, backward integration of fish oil what we had done is currently going...

Mr Satish Varma: Not fish oil, wool grease-based cholesterol backward integration is what we referred to as wool grease-based cholesterol.

Mr Sunil Jain: Okay. So, if I am correct then this backward integration will you said that has a similar margin as compared to the company?

Mr Satish Varma: Fish oil cholesterol has similar margins as compared to the company. Backward integration is wool grease-based cholesterol, which definitely reduces the cost of cholesterol as compared to what we purchase from outside vendors that we used to do earlier. So, that are two separate things. I think, Sunil ji, the fish oil cholesterol earlier what Sumesh was also mentioning is similar in line with our overall margins as fish oil cholesterol which we sell completely outside. After the backward integration, we buy wool grease, manufacture our own cholesterol for which the last year about 65 crores of Capex was, as Sumesh has mentioned, we have capitalized that is completely utilized inhouse. Yes, it helps us most importantly in our security and stability to be able to manufacture D3 because it's a niche ingredient, it's not so freely available

and there are very few vendors available for that. Not only does it give a security and stability, but also it definitely reduces our cost as compared to what we would have ended up purchasing from vendors, the few vendors that we, that are available. So, they are completely two different things.

Mr Sunil Jain: So, can you share this revenue from fish oil cholesterol which we sell outside?

Mr Satish Varma: As, I think it's about 8% of our revenues for this quarter.

Mr Sunil Jain: Okay. Great, sir. Thank you very much.

Mr Satish Varma: It's about 8% of revenues for this quarter.

Bharati: Thank you Sir. Ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. Ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. Ladies and gentlemen, that would be the last question for the day. Now I handover the floor to the management for closing comments. Over to you, Sir.

Mr Sumeet Shah: Thank you so much Bharati. Thank you all for participating in this earnings con call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or you would like to know more about the company, please reach out to our investor relationship managers at Valorem Advisors. Thank you once again and stay safe.

Bharati: Thank you Sir. Thank you everyone. Ladies and gentlemen, on behalf of Aditya Birla Money, this concludes the conference call for today. Thank you for your participation and you may disconnect your lines now. Thank you and have a good day everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.