



“Advanced Enzyme Technologies Limited Q2 FY19 Earnings
Conference Call”

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MANAGEMENT: MR. V. L. RATHI-CHAIRMAN
MR. MUKUND KABRA – WHOLE-TIME DIRECTOR
MR. BENI PRASAD RAUKA – CHIEF FINANCIAL OFFICER

Moderator: Good day, Ladies and Gentlemen and a very warm welcome to the Advanced Enzyme Technologies Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please also note that this conference is being recorded. I am now glad to hand the conference over to Mr. V. L. Rathi – Chairman of the company. Thank you and over to you, sir.

V. L. Rathi: Good afternoon everybody. This is my first time to face you on this major call even though I was here couple of time, so it is a pleasure to come down and talk to you personally here on the phone.

To begin with, let me state very categorically that the state of our company is very strong. Looking at the accomplishment of our company in last six months – first half of this year, our growth is to the tune of 19%. Not only that, all our people vision and commitment to delivering shareholders value remains unshakable. As you all know there has been a change in the management structure. Mr. C. L. Rathi is no longer the MD of this company. Mr. C. L. Rathi’s contribution to the company is immense and he has been crucial to building our organization here. We are very grateful to him.

Even though CL was the face of our company for several years now, underneath that there was a deep professional management structure running this company. We have a very strong team with nine senior managers who have over 150 cumulative years of history with our company. And that is immense. These are the people who build the company and they will continue to take the company forward. I am also a part of this structure. As you know I am with the company from the beginning since the inception and I am one of the founders of this company. Not only that I also have 40 years of experience in enzymes and that will serve the company well going forward.

As you all know that I am the head of US business and that is the business which is one of the most profitable business in our groups and that speaks for itself. My brother and I started this company with a vision to make it the leading Enzymes and Probiotics company globally. We have only just begun to scratch the surface of its full potential and we are very excited about the future and glad to have you as a part of our journey.

As some of you know who met me personally, I take my relationship with the investors very seriously and in all honestly there has a bit of shake up recently here. The management team is deep. And in all this shake up one good part is that our management team is very deep in the process of realigning and re-strategizing globally. And in due time, I fully expect that we will be better, stronger company that continues to deliver the excellent growth as I pointed out that the first six months of this year, we grew by 19%. I will be personally guiding this company

through the next several years. This business is my passion and in many ways, it is my another child. So, I expect to stay here in the active role for the foreseeable future.

Now I will like to introduce Mr. Mukund Kabra. He is a Director of Operations and he has been with the company for 23 years. He is also Whole-Time Director as the fundamental to our incredible success over the years. Mr. Mukund Kabra.

Mukund Kabra:

Thank you and good afternoon to all of you. Let me take you through the financial highlights for this quarter. Overall the financials are in line with the expectations of the company and the company is on track to achieve our guidance. The consolidated sales are up by 5% year-on-year to 1032 million as against 986 million in last quarter, Q2FY18. The EBITDA for Q2FY19 stands at 441 million as against 414 million in Quarter 2 FY18 up 7%. The EBITDA margins stand at 43% for this quarter as against 42% in Q2FY18 and the net profit has risen by 16% to 259 million as against 224 million in Q2FY18.

As far as the first half is concerned, H1 FY19 is up by 19% to 2074 million compared to 1742 million in H1 FY18. The consolidated EBITDA is up by 30% to 929 million as against 712 million in H1 FY18. The EBITDA margin is about 45% in H1 FY19 as against 40% in H1 FY18 and the net profit rose to 571 million in the first half as against 387 million in the first half of last year.

Now I will like Mr. Rauka to guide you further.

Beni Rauka:

Good afternoon everyone. Let me give you some insight about the first half of this year. As Mukund has mentioned that we have opened a growth of 19% as compared to the previous year. So, in absolute number we had a growth of about 332 million. Now this growth has come one because of we had foreign currency gains which is about 4% and remaining 15% is normal growth in our revenue. In terms of like our EBITDA margin which has grown up from 712 million to 929 million and registered a growth of about 30%. Now this 30% comprises of 9% on account of FX gain and 21% which is about 168 million is normal growth in our EBITDA. Our profits are higher about 184 million as compared to the earlier first half of financial year 2018. Now this 184 million comprises of FX gain of about 55 million, this is about 14% and our effective tax rate has gone down due to that we have gained about 65 million so that is 17% of our revenue. So, normal growth in the profit is about 17% which is about 64 million. So, that is how this 184 million increased in our profits from 387 million to 570 million during the first half of the current year.

Now we would like to open the floor for any questions.

Moderator:

Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dharmik Patel from ActiveAlpha Advisors. Please go ahead.

- Dharmik Patel:** I have couple of question, first of all how has evocx performed in this quarter? Are we at the breakeven level at EBITDA margin?
- Beni Rauka:** No, we are not. I think last time also we have mentioned it will take couple of quarters to have really breakeven.
- Dharmik Patel:** Should we expect by this end of year fiscal year of breakeven?
- Beni Rauka:** I mean that is what I am looking and I think Mr. VL. Rathi will respond to you this.
- V. L. Rathi:** The thing is evocx is a R&D research company. What we are trying to do at this time and as we said this before also that there are several different objectives with our evocx and most of the things which is important for us is how the R&D pipeline goes with it. It is going to be a several years since we will have to keep on putting various different capital expenditures to R&D research works for us. Having said that, we are also developing our marketing strategies in Europe with evocx. So, we are trying to establish that name and those brands again in the European market.
- Dharmik Patel:** In this quarter human nutrition did not perform as well as expected. So, are there any concerns regarding this achievement?
- V. L. Rathi:** No, not at all if you are asking about the US business.
- Dharmik Patel:** No, I am asking for overall you can give me overall highlights what has been across in the countries for the segment.
- V. L. Rathi:** We have a challenging macroeconomics right out as I had pointed out before also and the things does not perform exactly per quarter-to-quarter.
- Dharmik Patel:** Basically, there is no issues going this side. It is just the macroeconomic factors?
- V. L. Rathi:** Actually, we see a very strong business moment overall going forward.
- Dharmik Patel:** How is status on the palm oil business, we are planning to start a business in a palm oil generation in Europe so are we in line with the timeline that we had targeted starting to generate revenue from FY20?
- V. L. Rathi:** Yes, we are on that line so far.
- Dharmik Patel:** One last question the investments in current assets the line item it increased significantly from 0 to 72 crores in six months I just wanted to know where did we invest in?
- Beni Rauka:** Let me tell you this investment in our bonds and this is like in our US market.

- Moderator:** The next question is from the line of Amar Maurya from Emkay Global. Please go ahead.
- Amar Maurya:** Sir, basically two, three questions. Number one like the earlier participants asked in this new product launches primarily from the palm oil set of a business I mean what are the kind of visibility we have in terms of getting some early success or launching some new products by the next year.
- V. L. Rathi:** Amar we are right now doing some very interesting work in Malaysia and other places and we see very promising results. So, visibility is good, but not necessarily very clear.
- Amar Maurya:** Will actually commercialize something at this point of time or is it not clear to us?
- V. L. Rathi:** See the industrial business it is a long-term process where you established the product repeatedly with the several different customers and then go with the trials, pilot trails, long term trials and those things takes a little time. That is when we are talking about 2020, but if you look at it right now it seems very promising.
- Amar Maurya:** Secondly sir if I knock-off your top client revenue from year-on-year basis your non-top accounts basically in a human nutraceuticals segment has shown a very sharp growth so what is that basically driving this kind of a growth?
- V. L. Rathi:** That is where I was going to point out that all our other segments are showing very strong growth that means we are diversifying and not depending upon only top customer.
- Amar Maurya:** But then is this like the non-top accounts which are growing can they sustain this kind of a growth and is this a product differentiation which we are doing it with them or this is the geography expansion I mean what it is?
- V. L. Rathi:** Well frankly I believe at this point in time they are topping-off in US market, but they are very actively working to get establish into various other global market and this is very normal with the companies like them and as they start moving into others market with a lot of regulatory issues probably, they will get back again on the growth side.
- Amar Maurya:** And sir top clients which were likely to launch or expand in newer geographies I mean I believe they delayed that plan but that can again come up I mean what is the thought on that?
- V. L. Rathi:** Everybody is trying to go. Right now, globally we had a headwind remember that globally we can see a tremendous moment in all government regulatory bodies everywhere Argentina including India, Brazil various different places we see that regulatory bodies are coming in and they are trying to establish various different regulation and when there is an uncertainty of that regulatory bodies it is always difficult for the companies to make decisions.

- Amar Maurya:** Meaning we will see a steady kind of growth in a human nutraceutical but nothing that can basically surprise us?
- V. L. Rathi:** I do not know what is the good growth. 49% happen in first half is a pretty good growth to me.
- Amar Maurya:** Secondly, sir in the feed side of business we had done a registration in couple of new geographies so in that context like how do we see that growth of the feed business going forward?
- V. L. Rathi:** Very good because as I said before it takes some time to register and get established, distribution networks, but our responses are very nice.
- Amar Maurya:** One last probably in Europe also we had filed for a registration and I think it is more than one and half year. So, generally what we understood from the management is that it is a three-year process to get the registration for feed business in Europe, so any development on that side sir?
- V. L. Rathi:** Same thing. You know how the government works.
- Amar Maurya:** Can we get something in next 2 years?
- V. L. Rathi:** We have to hope so because everything whatever they ask for we supply and then wait for their answers.
- Moderator:** The next question is from the line of Sagir Khericha from Chartered Capital. Please go ahead.
- Sagir Khericha:** Sir, I just wanted to ask a question about the slide, so if you would go on slide number 11. So on this slide I cannot see the number that you have mentioned on the results somebody which is the EBITDA of 93 crores in the first half of FY19, so it is the profits before operation the EBITDA that you have shown is 81 crores I just wanted to know how is that number different. So, on slide number 9 we have mentioned an EBITDA of 93 crores ?
- Beni Rauka:** Let me tell this is profit before other income finance cost and exceptional item. So, there is a depreciation which need to be added.
- Sagir Khericha:** Absolutely sir, so if you look at the third line item on Slide #11, okay there is depreciation on that based on that. I wanted to ask a question to Mr. Rathi sir could you please explain the shareholding pattern bit in more detail because over the last one month there has been lot of pledging and non-pledging interchanging shares between promoters, so just wanted to get your thoughts on the exact promoter structure?
- V. L. Rathi:** The thing is as you pretty well know that I personally bought roughly 4.9% or 4.8% shares on the market from another promoter. That is the only thing I know which is changed as far as promoter is concerned as far as the best of my knowledge.

- Sagir Khericha:** Secondly, I wanted to know about the quarterly performance so generally the company does not have a very consistent quarterly performance because of order shifting from one quarter to another. So, the first half of the company performance has been very encouraging so wanted to know about the run rate for FY19 particular so I think the company has given a guidance of profit of approximately 110 to 120 crores in FY19, so just wanted to know if you are sticking to that guidance?
- V. L. Rathi:** So, far we are sticking to that one. We are already at 49%.
- Moderator:** The next question is a follow up from the line of Dharmik Patel from ActiveAlpha Advisors. Please go ahead.
- Dharmik Patel:** I have just one question. Are we looking for any other opportunities to grow as in recently in last four to five months before there was a research done by some UK professor and he had discovered plastic-eating-enzyme so do we intend to capture this market by developing enzyme for this?
- V. L. Rathi:** I think it is an exciting area with the environmental areas what you are talking about, but at this time that is not our focus.
- Dharmik Patel:** Shall we plan to move in this couple of years after or are you trying to move in this direction?
- V. L. Rathi:** Not at this time Dharmik but who knows once we achieve our target, we will try to find new challenging areas. Enzymes can do wonders as you know.
- Moderator:** The next question is from the line of Sharan Pilla from Allergo Capital. Please go ahead.
- Sharan Pilla:** I have one question what do you think what do you reckon as the size of the addressable market for the palm oil business that you are planning on getting into FY20?
- V. L. Rathi:** That is the size of the business of palm oil you are talking about, right?
- Sharan Pilla:** Yes sir.
- V. L. Rathi:** I think it is \$500 million to \$700 million.
- Moderator:** The next question is from the line of Rahul Marathe from Akash Ganga Investment. Please go ahead.
- Rahul Marathe:** Sir, if you could just once again repeat flow of PAT you were giving some numbers on the tax benefits in the FOREX that we have and otherwise on normalize basis it is 17% so just numbers.

Beni Rauka Rahul the profit is higher because of FX gain of about 55 million and then lower effective tax rate I mean that amount is about 65 million and then normal profit growth is about 64 million. So, this is the increase I am talking about 184 million that is our increase in profit after tax as compared to the first half of previous year. So, first half it was 387 million this year it is 571 million so we have just dissected it and then given it to you.

Moderator: Thank you very much. That was the last question in queue. I now hand the conference over to V. L Rathi for closing comments.

V. L. Rathi: Thank you everybody. We really appreciate your support throughout this journey for last several and we really look forward to hear similar kind understanding and support in future I really appreciate you coming down and asking putting your valuable time with us.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Advanced Enzyme Technologies Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.