



“Advanced Enzyme Technologies Limited Q4 FY-19 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, good day and welcome to the Advanced Enzyme Technologies Limited Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please also note that this conference is being recorded. I now hand the conference over to Mr. V. L. Rathi. Thank you and over to you, sir.

V. L. Rathi: Thank you so much. Good afternoon everybody. It is great pleasure to speak with all of you again. Last time we met about six months ago and let me tell you that, these six months are very-very productive and fruitful months for us. We have been consolidating during this time and reorganizing our subsidiaries worldwide to achieve synergies. We are in sync and all deep focus which will help Advanced Enzyme move towards leading player in enzymes and probiotic sector.

We have some excellent news to report as you have all gone through our numbers:

We have accelerated the high end of our projected PAT last year. The bright spot of our growth story with an uptick of 17% in US business. Our reliance on the top customers is also decreasing as it contributed 17% of our total revenue against 20% which was last year and this 17% is on the rising sell as well.

Our regulatory team has also done some excellent work. This year we achieved No Objection Letter from the US FDA for our grass fillings. So we are filling lot of our products on the grass also this year which is basically generally regarded as safe enzymes. We have also filed a number of registrations in food and animal feed around the world including US, China, Europe and South America. These registrations will allow us to sell in more of these countries. Mind you, that this takes considerable time and effort to give us a competitive edge over our competitors in next few years.

We have also made very great progress in integrating Evoxx which is our German subsidiary as I have mentioned before our major goal is and focused in last six months is to consolidate. The integration process between AETL and Evoxx has accelerated. We acquired Evoxx if you recall in 2017 because of the strong technological expertise in enzymes and microbial strength development. This expertise was the great complement to our R&D skills we have here in India. Now this expertise of Evoxx and Indian expertise in various different application, we are trying to bring to the market place. In these recent months we have spent an enormous amount of time with the team of Evoxx and make sure that everyone is working very hard to integrate smartly allocating our R&D resources. Evoxx is only a piece of the rest of our company. We have built strong manufacturing and marketing facilities, making us a true integrated player. We are only pure enzyme and probiotic listed in India and significant credit goes to our ability to innovate consistently.

Coming back to future:

For FY20, this is going to be again a challenging year for us because the consolidation revenue allocations, synergizing all our different resources, putting them into sync to increase your sales and profitability of this company over coming to next several-several years. So, we commit to growth without sacrificing our margins. We have realigned going ahead with holistic strategies and continue to focus on our double-digit growth.

Our company values provide us with the capabilities to face various different challenges and provide intuitive solutions to complex problems as you all know there is a great drive going after the green energy and we are very-poised to take a full advantage globally.

Advanced Enzyme employees have made this journey of ups and downs quite smooth and provide extraordinary competency in this dynamic world.

Now, let me hand over this to Mr. Mukund Kabra – the Director of Operations, who will brief you regarding the company's financials and other operations.

Mukund Kabra:

Good afternoon to all. I will just take you briefly through the company's financial for the last quarter and last year. The consolidate sales are up by 2% year-on-year to 1104 million as against 1,086 million in Quarter Four Financial Year '18. The EBITDA for Quarter Four Financial Year '19 stands at 497 million as against 484 million in Quarter Four Financial Year '18, up by 3%. The EBITDA margins stand at 45% for this quarter as against 45% in Quarter Four Financial Year '18 and the net profit has risen by 18% to 335 million as against 283 million in Quarter Four Financial Year '18. Financial Year '19 is up by 6% on the revenue side to 4,196 million compared to 3,957 million in Financial Year '18. The consolidate EBITDA is up by 11% to 1,819 million as against 1,640 million in Financial Year '18. The EBITDA margin is about 43% in Financial Year '19 as against 41% in Financial Year '18 and the net profit grows by 24% to 1,159 million in Financial Year '19 as against 936 million.

Now I would like to hand over to Beni Rauka to give some more insights.

Beni Rauka:

Good afternoon, thank you Mukund. As Mukund and V.L. has already mentioned, this year we have consolidated our sales. The top-line revenue has grown up from 3,192 million to 4,196 million, a growth of about 7.3% in our top-line. And this is due to couple of things the FX gain rupee depreciation has contributed significantly in this growth, our gross contribution has gone up this year from 79% to 82% and the good news is, this year our US business have seen a growth of about 8.2% in dollar terms and if we exclude our one of the top customers, the growth is about 29% in dollar terms, in rupee terms it is about 40%. And in spite of our some of the cost going up we could have a better profit margins during this year. Our PAT has increased by 24% so we had a PAT margin of 28% as compared to 24% during FY18. So our PAT is increased to 1,159 million as compared to 936 million during FY18.

And our finance cost has gone significantly down during this year as compared to FY18. The effective tax rate during this year has also gone down from 33% to 28% mainly because of the

US subsidiary where the effective tax rate earlier was about 34% is reduced to 27% during FY19. This is of course partially offset because of higher tax in India from 18% to 25%. Our working capital cycle remains in the range of about 110 days and we are virtually a debt-free company.

And with this I would like to open the floor for questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sagar Jetwani from Karvy Portfolio Management Services. Please go ahead.

Sagar Jetwani: My question is related to specifically on the growth outlook going forward. Would our emphasis be more on growing organically or we will be hunting for inorganic opportunities as well going forward?

Mukund Kabra: We are looking both way as the company is cash rich so we are actually hunting for the inorganic opportunities as well as we are working on the organic. So on the inorganic side the company is really looking on the probiotic and on the enzymes and on the animal feed. So, these are the three targeted areas where we are actually working on.

Sagar Jetwani: Sorry if you can just repeat pro-biotic.

Mukund Kabra: Probiotic on the nutrition sides and on the animal feed side.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Sir we are developing some enzyme for palm extraction industry in Indonesia and Malaysia. Can you give some update on it what are we doing right now?

V. L. Rathi: Sure. Hardik we are in the mist of doing various different trials at this point in time industrial trials with different companies. Even though we can see that there is a strong headwind there but during this year we will get to know little bit more about how greatly we succeed.

Hardik Jain: And sir our consolidated turnover, can you break-up this 420 crore turnover how much Evoxx and JCB has done?

Beni Rauka: JCB is about 489 million and Evoxx is about 166 million. Those numbers gets eliminated in the process.

Hardik Jain: Sorry?

Beni Rauka: Those numbers finally gets eliminated.

Hardik Jain: Okay. And how much Evoxx must have lost this year how much lost it must have reported?

V. L. Rathi: I think the cash loss is about 30 million or so.

Moderator: Thank you. The next question is from the line Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Firstly, what was the M2M loss and the FOREX in this particular quarter as well as the whole year?

Beni Rauka: So it is not significant. It is only about 0.3 million.

Amar Maurya: 0.3 million for this quarter right?

Beni Rauka: For this whole year I am saying.

Amar Maurya: Okay, this is dollar right?

Beni Rauka: No, it's in INR.

Amar Maurya: Okay. And what would be for the quarter, then in that case very insignificant?

Beni Rauka: What happens quarter-to-quarter Amar sometime it's in gain, sometime it's in loss right so it's that of everything.

Amar Maurya: Okay. So this is the loss of only 0.3 million right?

Beni Rauka: So it's 0.1 rather not even 0.3 it's 0.1 almost.

Mukund Kabra: Around 1 lakh.

Amar Maurya: Okay. And sir secondly what was the EBITDA loss at the Evoxx level in the whole year as well as for the quarter?

Beni Rauka: EBITDA loss?

Amar Maurya: Yes, Evoxx will still be in loss, right?

Beni Rauka: Yes, we will just come back with the numbers to you.

Amar Maurya: Okay, so you don't have it handy right?

Beni Rauka: For this entire year it's about 49 million.

Amar Maurya: And for this quarter it would be what sir?

Beni Rauka: It is positive 11.5.

Amar Maurya: Okay. And sir what would be the large top client contribution in this particular quarter?

Beni Rauka: So, I think yearly numbers we have given you right?

Amar Maurya: The top client has been missing sir. Top client number I believe in the presentation you are talking about?

V. L. Rathi : 17% of the total sales.

Amar Maurya: Okay. So, 17% of the total 420 crore sales right?

V. L. Rathi: Yes.

Amar Maurya: And what would be for the quarter then it is around 20 crore range?

Beni Rauka: For the quarter we will just give you the number, 13% for this quarter.

Amar Maurya: Sorry 14% right?

Beni Rauka: 13%.

Amar Maurya: 13% for the quarter and 17% for the whole year?

V. L. Rathi: That is correct.

Amar Maurya: And sir one last from my side. How do we see the outlook like normally we guide for the top-line as well as for the EBITDA? So how we should look going forward for financial year 20 what kind of top-line we expect and what is the kind of margin range we expect from 2020?

V. L. Rathi: Amar we are right now forecasting our given the guidelines on organic growth which we expect in double digit low double digit of 10 to 13%. As previously Mukund has advised you we are also looking at various different opportunities in inorganic sectors.

Amar Maurya: Correct.

Mukund Kabra: So on the way term margin side it will be in the same range between 41 to 45.

Amar Maurya: Okay. But it cannot improve like because now your Evoxx is in positive so I believe for nine months Evoxx was in loss if I am not wrong?

Beni Rauka: At this moment of time we will go with those numbers would be talking about. So, we had 43% of EBITDA margins so we will go with that margin only.

- Amar Maurya:** Okay. Got that, and sir one last I think you indicated that there are couple of registrations which we got for pet food industry. Which are those countries where we got it and how do we see the scaling of that business going forward?
- V. L. Rathi:** Amar this is animal feed industry and the registration takes anywhere from six months to two years. We are very aggressively going into various different countries for registration at this point in time and as we get registration done you will see the update in the growth in that particular sector.
- Amar Maurya:** Okay, so this is approximately another one and a half year away from the whole thing?
- V. L. Rathi:** You will see some effect this year and of course more effect in next year.
- Mukund Kabra:** Few years down the line we will see the real growth.
- Amar Maurya:** I just wanted to understand, there is a good amount of goodwill sitting on the table like 270 crore what is that?
- Beni Rauka:** This is goodwill on consolidation Amar, because if you really look at it we have acquired US company somewhere in 2011 and then later on we acquired JCB and last year we added Evoxx so on acquisition this goodwill arises, the consideration which you pay and the assets tangible and non-tangible assets so the difference is all goodwill.
- Amar Maurya:** So are we going to impair it over a period of time?
- Beni Rauka:** It is done every year. The impairment testing is already done. Every year we do the impairment testing.
- Amar Maurya:** Okay. So over a period of what 15-20 years we knock it off through the P&L?
- Beni Rauka:** No, till the business is having the value which you have already paid for it, there is no impairment of the assets.
- Amar Maurya:** Okay, but can it come I just want to understand like 270 crore is a significant amount if we decide to impair even a 10% of that then also it's a significant amount right?
- Mukund Kabra:** 234 of 270 comes from the US, so I don't think in any near future there is an any chance of impairment on that front, right, because as you know like US business is really doing good. The remaining is coming from the Evoxx and the Malaysia subsidiary and JCB. Second one is JCB and then the Evoxx, the JCB is also doing good. So don't foresee any of the impairment on that front. The third one is the Evoxx.
- Moderator:** Thank you. The next question is from the line of the Shikha Mehta from Equitree Capital Advisors Limited. Please go ahead.

- Shikha Mehta:** I just had a couple of questions. First to do with the R&D, if you could give me in rupee terms or as a percentage of top-line how much we spend on R&D through the year?
- Mukund Kabra:** So R&D we have spent about 200 million which is roughly I think about 5% as a total.
- Shikha Mehta:** And sir this amount is charged directly to the P&L or does any of it go to balance sheet?
- Mukund Kabra:** Yes, we charge it to P&L.
- Shikha Mehta:** Alright. And sir on the palm oil business do we have any idea when it is going to begin, when it will start showing in numbers?
- V. L. Rathi:** As I told you Shikha we are doing lot of industrial trials this year. It has a headwind so we will see how that comes out into actual numbers this year, okay.
- Shikha Mehta:** Alright. And sir on Evoxx this quarter we reported positive EBITDA. So do we expect next year breakeven at a PAT level or not yet?
- Beni Rauka:** We expect that we should be kind of situation where the way we have been strategizing on that company should be cash neutral in this year.
- Moderator:** Thank you. The next question is from the line of Sanjay Bhatia from ActiveAlpha. Please go ahead.
- Sanjay Bhatia:** For this fiscal what would be the revenue bifurcation based on like carbohydrate and protein?
- V. L. Rathi:** Can you repeat your question please?
- Sanjay Bhatia:** Yes, regarding revenue bifurcation based on type so what would be the revenue bifurcation or revenue segmentation base type like carbohydrate or protein?
- V. L. Rathi:** So we don't have that kind of bifurcation. Our bifurcation is based on application of our enzymes in various industries. So may it be a human healthcare, animal healthcare and industrial bio processing.
- Sanjay Bhatia:** But which part dominates the more the carbohydrates or protein?
- V. L. Rathi:** So, I am giving human nutrition it is about 76% of our business and animal nutrition is about 12%, in bio processing it is about 12%.
- Sanjay Bhatia:** Okay, but we cannot measure which carbohydrate or protein generates more revenue?
- V. L. Rathi:** No, we don't.

Sanjay Bhatia: Okay. This fiscal current investments have increased to 111 crore can you share more details on it where it has been invested and what is the rationale behind it?

V. L. Rathi: This investment is in our US subsidiary in US treasury bonds.

Sanjay Bhatia: And last year total patents filled was 28 right?

V. L. Rathi: Right.

Sanjay Bhatia: And what would be for this year?

V. L. Rathi: We increase another patent this year.

Sanjay Bhatia: So it would be increase of seven?

V. L. Rathi: No, we increase one more patent this year.

Sanjay Bhatia: Okay, one more so total is 29 now.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Sir it is mentioned in one of your earlier calls that one of the reasons to acquire Evoxx is to access German and European market and maybe there is a possibility of cross selling our existing enzymes to their client so is there any update or any development on that front?

V. L. Rathi: Hardik, we are progressing in that particular objective very nicely and there is sales going cross sales are going on right now.

Mukund Kabra: Small sales target.

Hardik Jain: Okay, so you managed to do some cross sales to Evoxx clients?

V. L. Rathi: Yes.

Moderator: Thank you. The next question is from the line of Rahul Marathe from Akash Ganga Investments. Please go ahead.

Rahul Marathe: Sir what would be growth expected on the PAT for the current year for FY20?

V. L. Rathi: 10 to 12%, 13%.

Mukund Kabra: No, that is our top-line. He is asking about PAT. We expect the same margin percentage.

- Beni Rauka:** Right. So as already mentioned by Mr. V. L. Rathi the top-line growth is likely to be say 10 to 12% and since we have already mentioned that our PAT margins is likely to be in the range so we do expect the growth in PAT will be also in the same range of 10 to 12.
- Moderator:** Thank you. The next question is from the line of Sanjay Bhatia from ActiveAlpha. Please go ahead.
- Sanjay Bhatia:** Sir apart from palm oil business what other business opportunities the companies are currently exploring?
- V. L. Rathi:** Good question Sanjay, our focus is very strictly on the market side of exploring the green opportunities besides grow into the healthcare business of human and animal health in probiotics and enzymes.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.
- V. L. Rathi:** Thank you everybody for coming and attending this conference and asking your valuable questions. We highly appreciate it and thank you for your support to this company for so long and look forward to your continued support in future. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Advanced Enzyme Technologies Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.