Neogen Chemicals

Operator: Good afternoon, everyone. This is the second day of the Bharat Connect Conference. I welcome you all to the call of Neogen Chemicals Ltd. Today, from the management team, we have Dr. Harin Kanani, Managing Director of Neogen Chemicals Ltd. Before I hand over the call to management, we will begin with a brief introduction and opening remarks by management, and then move on to the Q&A session. Participants who would like to ask questions can raise their hands or submit questions in the chat box. We will prioritize questions from participants who have raised their hands, followed by questions from the chat box. If time permits, we will take some questions received from participants who were unable to join the call. Over to you, sir.

Dr. Harin Kanani – Managing Director: Thank you for hosting Neogen Chemicals. I am happy to introduce the company. Neogen Chemicals was started by my father. Both he and I are chemical engineers from IIT Bombay. I also had the opportunity to complete my PhD in the US and work at DuPont. My father was one of the first people in India to produce bromine from seawater in the 1970s. Unfortunately, there was a water dam near Morbi, where the plant was located in a place called Dhuwakhai. In the late 1970s, the dam in Morbi broke and destroyed the plant. He therefore suffered a heavy financial loss. He worked as a technical consultant, setting up bromine plants for others, and in 1985 he started making bromine derivatives. One of the first bromine derivatives he made was lithium bromide. That is how our lithium journey started. We have been working with bromine since the 1970s and with lithium since 1985.

If we talk about Neogen Chemicals, which is the parent company, we make bromine derivatives, specialty bromine derivatives, and inorganic lithium compounds, mostly non-battery compounds. This business is conducted in the parent company. Over the last 10 years, as we progressed from 100 crores to 1,000 crores, we also added specialty advanced intermediates and contract manufacturing. We also acquired a company that can produce organolithium.

Today, the base company will cross approximately 1,000 crores in revenue this year. Around 300 to 400 crores will come from bromine derivatives. Another 300 to 400 crores will come from advanced intermediates and contract manufacturing. Organolithium will contribute approximately 100 to 150 crores, and inorganic lithium will contribute around 150 crores. This is how our 1,000-crore revenue will be broken down.

If I were to discuss the majority of our milestones, we started making bromine derivatives before Neogen was established as a proprietary company. We grew from revenue of 10 lakh to 1 crore from FY86 to FY91. Then, once Neogen Chemicals was started, we went from 1 crore to 10 crores from FY91 to 2000. Sorry, the correct progression was from 10 crores to 100 crores by 2016.

Dr. Harin Kanani – Managing Director: We reached approximately 100 crores by 2016, and all of this was achieved at our Navi Mumbai plant. We then acquired a plant in Baroda, which allowed us to grow from 100 crores to 300 crores in 3 years. We set up a greenfield plant in Dahej. We also acquired a company in Hyderabad 3 years ago for organolithium. Together, these businesses have taken us to revenue of more than 1,000 crores.

Our guidance for this year is 1,050 crores, compared with 850 crores last year. During this journey, in 2017, we also became aware of the lithium-ion battery opportunity. India introduced the FAME

Report is AI-generated and may contain inaccuracies.

policy, Tesla set up a gigafactory, and China also announced the rapid adoption of EVs and energy storage systems for batteries. We therefore started working on lithium-ion battery raw materials.

We had some synergies with electrolytes, one of the battery components in which lithium is present. Lithium in a lithium-ion battery is present in the cathode and anode, so we chose electrolytes. We started working on R&D. By 2021, we were able to produce electrolytes and all their components in our laboratory. In 2024, we started our first gigascale electrolyte production facility.

Today, we have 2 units. One has a 2,000-ton capacity for producing electrolytes. It is already supplying one of India's gigafactories and 2 smaller units. We also produce the key raw materials for electrolytes, including electrolyte lithium salts and additives. We have started selling these products in the international market as well.

The existing facility has 2,000 tons of electrolyte capacity and, until last year, approximately 200 tons of electrolyte salt capacity. We are now increasing this to up to 2,500 tons of salt and additives at the Dahej site.

Two years ago, we also started setting up a greenfield site in Pakhajan. This is a 65-acre facility where we are starting with a 30,000-ton capacity. We will have 30,000 tons of electrolyte capacity and 3,000 tons of electrolyte salt capacity. The electrolyte at this site will be produced using Mitsubishi's technology, and Mitsubishi is one of the oldest electrolyte manufacturers.

We are forming the electrolyte salt business as part of a step-down subsidiary called Neogen Morita New Materials Limited, or NMNL for short. This will be an 80:20 joint venture with the Japanese company Morita. The business model is that we will sell electrolytes, which have a very short shelf life and therefore must be produced locally. We intend to sell 30,000 tons of electrolyte in the Indian market. The electrolyte salt, which is the main component, along with some lithium additives and certain solvents that we purify, will be sold in the international market. Therefore, electrolytes will be sold in India, while electrolyte subcomponents will be sold globally.

Including the existing capex, we are completing nearly 1,800 crores of capex, which will be completed by the end of this year. With this investment, we expect that we can reach full utilization within the next 2 years.

Last year, revenue was approximately 35 crores. This year, we are targeting around 300 crores. In the next financial year, we are targeting revenue of more than 1,000 crores. In the following year, by FY29, we expect to generate revenue of approximately 2,500 to 3,000 crores from the battery business alone.

Along with our base business, at the consolidated level, we expect to reach approximately 3,500 to 4,000 crores by FY29. We are therefore in an exciting phase. We closed FY27 at 850 crores, and by FY29 we are targeting revenue of nearly 4,000 crores. The majority of the capex required for this is already in place. This is what we are working toward.

As I said, the base business will continue to comprise bromine derivatives, organolithium, non-battery lithium, advanced intermediates, and CSM. These products target the pharmaceutical, agrochemical, semiconductor, flavors and fragrance, and engineering sectors. Neogen Ionics, the

Report is AI-generated and may contain inaccuracies.

subsidiary, will cater to battery customers in India and international markets.

We are very excited about the journey ahead. For us, this is only the beginning because, if we look at India's battery demand, over the next 10 years battery production, which is only beginning now, is likely to reach nearly 900 gigawatt hours. For this, we expect demand of nearly 900 KTA.

Even if Neogen is able to maintain a market share of 30-40% over the next 10 years, which is what we have seen the dominant electrolyte players achieve in the Chinese market, and the market share in Japan and Korea is even higher, India's electrolyte demand alone would be approximately 10,000 to 15,000 crores. This is only the beginning for the battery business, and we still have significant room to grow.

The next 2 or 3 years will be important because, once we complete the execution, we will have the opportunity to demonstrate our capabilities. From an approval perspective, there are currently 6 gigafactories under construction in India. Together, they will add approximately 60 gigawatt hours of cell production capacity. Even if we capture 50% of that capacity by FY29, we would be fully utilized.

Internationally, we already have some long-term contracts that provide visibility. Our Dahej site has already been approved by 4 of the 5 electrolyte manufacturers in the US. The fifth manufacturer is also engaged with us and has said that it will approve us as soon as our new Pakhajan facility comes online. Therefore, by next year, all 5 US customers should have approved us, giving us access to the entire US market.

The US also requires battery manufacturers that want to receive the US government's subsidy under the 45X tax credit to be free of Chinese content. Therefore, there is a strong requirement for US customers to procure from non-Chinese sources. There are only 3 or 4 non-Chinese sources available globally, and Neogen Morita's joint venture is one of them.

We are therefore well positioned to address both India's requirements and global requirements: India's requirement for electrolytes, and the global requirement for electrolyte salts and additives. With this, I will stop and take questions.

Analyst1: Thank you very much, sir. That was a very brief introduction and opening statement about the company. I actively cover graphite anodes and graphite industries, and I have also been tracking your peers and your company.

One of my questions is: how will the government's PLI scheme for ACC, which is approximately 18,100 crores, translate into our business and into the broader battery-material infrastructure? Do we still believe that we are dependent on government PLIs and other import restrictions on China to build this business at scale?

Dr. Harin Kanani - Managing Director: Thank you for your question. When it comes to the government PLI, the 18,000-crore ACC PLI that you mentioned is for cell manufacturers. However, for cell manufacturers to qualify for the PLI, they need to achieve a certain level of localization. We are not direct beneficiaries of this PLI; we are indirect beneficiaries. This means that cell companies seeking the government's PLI benefit have to buy locally, and because of that, Neogen becomes a

Report is AI-generated and may contain inaccuracies.

preferred company from which they can buy. This is the position under the ACC PLI scheme.

As you know, this scheme is for 50 gigawatt hours. As I mentioned, the starting capacity is already 60 gigawatt hours, and this includes both PLI recipients and non-PLI recipients.

One of the biggest differences between anodes and electrolytes is that anodes can be imported easily, whereas electrolytes are very difficult to import because their shelf life is very short and they therefore have to be produced locally. The PLI makes the battery manufacturer more competitive when purchasing from us.

In the beginning, China will be the main electrolyte producer or supplier. Compared with Japan or Korea, where the other electrolyte manufacturers are located, we are cheaper. The main challenge is that prices in China vary depending on the timing. Sometimes China can be priced at 50-60% of our price. Sometimes the difference is 10-15%, and sometimes Chinese suppliers can also be more expensive.

The biggest factor driving the decision to purchase electrolytes is shelf life. On paper, the shelf life of an electrolyte, depending on its type, is between 1 month and 3 months. However, the practical or desired shelf life is only 14 days. Ideally, customers want to use the electrolyte within 14 days.

Government PLIs do help because, if there is a difference between the Indian price and the Chinese price, customers can still buy from us and remain competitive because the government subsidy supports them. At the same time, in the case of electrolytes, customers want to buy locally because of shelf life and other logistics issues.

Dr. Harin - Management: Sometimes we also design electrolytes for customers that provide better performance than what they are receiving from China. Electrolyte is usually the secret sauce, or secret recipe, and every cell manufacturer wants to have a unique electrolyte design for itself. That is another reason why they would like to work with a company such as Neogen. We have already been providing them with R&D support since approximately 2021. This is another benefit that we have.

There is one more PLI that we have seen discussed in news articles, which the government is considering: a battery-material PLI. Under this scheme, Neogen could be a direct beneficiary.

If this PLI is introduced, the higher cost of producing an integrated battery-material system, where not only the electrolyte but also all the major subcomponents are produced in India, compared with producing them in China would be subsidized by the government. If this is implemented, it would provide even stronger support to cell manufacturers because, when they buy from us, the cost could be the same as in China and they would not face any penalty for buying locally. They could fully use the PLI they receive to offset their higher costs.

Once the government provides support up to 50 gigawatt hours, and perhaps between 50 and 100 gigawatt hours until the industry reaches that capacity, we would be better able to address Chinese competition in terms of price. The leading Chinese electrolyte manufacturers have capacities of approximately 300 KT to 350 KT. If we reach 100 KT, our scale would be greater by an order of magnitude. Currently, our 30 KT compared with 300 KT, or even 2 KT compared with 300 KT,

Report is AI-generated and may contain inaccuracies.

represents a very large difference.

Once we reach 50 KT or 100 KT, the difference will be smaller. If the government supports the entire ecosystem up to 50 or 100 gigawatt hours, including anodes, cathodes, electrolytes, separators, and cell manufacturing, then, based on better design, better technology, better capabilities, and the local advantage, we should be able to sustain ourselves over the long term even without government benefits.

The Chinese companies also received support when they were at this scale. It is something that every industry needs initially to establish the first infrastructure. Incremental capex can then be more efficient.

Operator: Understood, sir. We will take some questions from the participant list. There is a large queue in the participant list, so I request participants to limit their questions to 2. We will begin with our first question from Aman Thadani. Please go ahead and ask your question. I request all participants to limit their questions to 2. Aman, please go ahead.

Aman Thadani: Am I audible?

Dr. Harin – Management: Yes.

Aman Thadani: Thank you very much, and hello, Dr. Harin. I hope you are doing well.

My first question is that we are seeing many cell capacities being delayed in India. There was a tie-up between Amara and Gotion that was dropped. We are also seeing some delays at Reliance, and there is no clarity on the technology partner. Some companies are choosing to develop the technology in-house instead of licensing Chinese technology. Therefore, the learning curve could become longer. They may first need to get the cell technology right at the pilot stage, then move to commercial production, increase yields, reduce scrap levels, and so on.

In that context, do you see Indian cell capacity being restricted to perhaps 25-30 gigawatt hours over the next 3-4 years because the learning curve has become longer? In that context, how do you see the risk of Neogen filling its electrolyte capacities within the targeted timeframe? That is my first question. It was a slightly long question, but I wanted your perspective.

Dr. Harin – Management: What we have seen is that we are past most of the delay-related decisions. If we look at the situation today, there are 6 gigawatt manufacturers. Ola has already commissioned its facility, produced batteries that are on the road, and demonstrated them successfully. Exide also stated just last week that it has capitalized the plant and informed the exchange that it has reached commercialization. Exide set up the plant 1.5 years ago and has completed the learning required to reach that level.

Similarly, Amara Raja has set up its own plant. Waaree, Reliance, and Tata are at an advanced stage of installation. All of them have indicated that their plants should be installed and under commissioning before March.

My sense is that by March, or at the latest by June, and I am only giving my sense here, most of the 60 gigawatt hours will be installed. Internationally, it takes approximately 1-2 years for plants to

Report is AI-generated and may contain inaccuracies.

become fully operational. By fully operational, I mean reaching full capacity with the scrap rates, efficiency, and other factors that you mentioned.

If we take March 27 as an example, by which time the 60 gigawatt hours are fully ready, companies such as Exide or Ola, which have already commercialized their plants and operated them for 1 year, could reach 50-100% utilization within another year. Companies that start later, depending on their partners and the amount of learning required, should reach full utilization by FY28 or FY29.

In a way, I agree with your assessment of 2-3 years. I am saying that we should be fully ready in approximately 2 to 2.5 years. If we consider this period of 2 to 2.5 years, which takes us to FY29, even at 50% utilization, the 60 gigawatt hours would require 60,000 tons of electrolyte volume. In fact, the requirement would be higher because a large majority of this capacity comprises NMC capacity rather than LFP capacity. Therefore, there would already be demand for 60,000 tons.

Even if we are at 50-60% utilization, Neogen's 30,000-ton plant could be fully utilized. There is sufficient demand for that. If we execute well and all the companies stabilize within 1 year, our position would be even stronger. My estimate is that India should achieve at least 50% utilization on a collective basis by FY29.

Once this is proven, the companies will have greater confidence to add capacity more quickly. The total installed capacity targeted by all 6 companies is approximately 250 to 260 gigawatt hours. From FY30 onward, we should therefore be on a path to move from 60 gigawatt hours to 260 gigawatt hours. That will be the journey.

Aman Thadani: Understood, thank you. I have one follow-up question. For companies developing technology in India, Neogen would be a preferred supplier because you provide all that support in India and there is no restriction on purchasing from a Chinese vendor.

However, if a company has a Chinese technology tie-up, the technology partner might mandate that the company purchase electrolytes or cathodes from specific vendors based outside India. In that context, how would localization play out for companies whose technology partners are outside India and impose such a mandate?

Dr. Harin - Management: There are 2 or 3 ways this can work. As you said, some companies have developed their own technology. Some have already negotiated this point in their agreements because they know that electrolytes have to be produced locally. They have therefore included in the agreement itself that the technology partner will help them validate a local electrolyte manufacturer.

For some companies, we are working in a way where we say that it is in everyone's interest for the electrolyte to be produced locally. Even if the technology partner continues importing the electrolyte, battery performance will not be achieved, which is also not in the interest of the technology partner.

We have found various ways either to work with the electrolyte company or with the technology company. In some cases, we have also designed an electrolyte that provides better performance than what they are currently importing.

Report is AI-generated and may contain inaccuracies.

Mitsubishi is our partner not only for designing the plant but also for helping us design electrolytes for our customers. Through these initiatives, we are gradually addressing most of our customers' requirements. In the worst-case scenario, if the technology partner insists initially that the customer use smaller volumes from China, the customer will subsequently switch to Neogen.

All of this should also play out in the current year. As I explained, 5 out of the 6 gigafactories already have electrolyte recipes with us. During our trial production with Mitsubishi, which we will begin very soon, we will produce and demonstrate these recipes. We are still working on the recipe for 1 customer, but we are progressing. We believe all these issues will be resolved, so that by FY29, when India has demand for approximately 30,000 tons, all these issues will be resolved and we can achieve full utilization as planned.

Operator: Thank you, Aman. I am sorry to interrupt, but because of the large queue in the participant list, I request you to rejoin the queue. Thank you. We will take our next question from Sudhir Kedia. Sir, please go ahead with your question.

Sudhir Kedia: Good evening, Harin, and congratulations on the successful QIB.

Dr. Harin – Management: Thank you, Sudhir. It is good to connect with you.

Sudhir Kedia: My broad question is that you said approximately 60 gigawatt hours of battery capacity could grow to 260 gigawatt hours as we move forward. I request you to give us a broad picture of how you think the entire battery market will develop over the next 5-7 years.

Second, since we will be a major player in electrolytes, and as I understand it, 1 gigawatt consumes 1,000 tons of electrolytes, how do you see this market developing by FY29? We have set up capacity for FY29 at a particular utilization level.

If you could also elaborate on the realization we are assuming when we talk about 2,500 to 3,000 crores of revenue from the business based on the existing investment, that would be helpful. Please also discuss how the export market for salts can grow in terms of volumes.

Dr. Harin – Management: I will try to address the questions one by one. First, let us look at the electrolyte demand in India. Last year, India imported approximately 30 gigawatt hours of cells. The Ministry of Heavy Industries has projected that this number will increase to 90 gigawatt hours by next year.

We have said that India is setting up 60 gigawatt hours of cell production capacity. If, within 2 years, or by FY29, we reach 50% production, that would represent 30 gigawatt hours of local production. By that time, India's own demand for EVs and energy storage would already be above 100 gigawatt hours. The demand is therefore growing very rapidly.

It is no longer a question of EV penetration, nor is it a question of the commercial viability of energy storage systems. Those questions have already been answered. The question now is whether we can establish cell production.

If we look at some of the cell manufacturers in India, based on what has been shared publicly, Reliance and Waaree both have significant internal consumption. They are already producing solar

Report is AI-generated and may contain inaccuracies.

equipment and want to consume the cells internally. Tata also has internal consumption in India, and it has announced that it will serve the international market through JLR.

Once India can produce cells, the production will not be only for India but also for the global market. This could include solar systems being exported by Waaree to the US or Tata selling cells to the US. There will be a mix of domestic and export demand.

There is strong demand for reasonably priced, non-Chinese cell production, which is a role India can play, especially if the entire supply chain is brought to India. It is generally estimated that over the next 10 years, India's demand for cell consumption will increase to approximately 600 to 700 gigawatt hours.

If we assume that export demand will account for another 20-25%, either in the form of cells, battery systems, or EVs exported after 10 years, my estimate is that India should reach approximately 900 gigawatt hours.

Management: By 2036-37, if we achieve that, it would represent China's position today. In effect, what we are saying is that if India catches up to China's current position in 10 years, electrolyte demand will reach approximately 900 KT, which is 30 times the capacity of my current plant.

Even if Neogen has a market share of 30-50% at that time, the electrolyte demand from Neogen alone would be approximately 300 to 450 KT, which would again be nearly 10 times our current capacity.

You also asked what happens in FY30. If everything goes well, we would be fully utilized by FY29. Therefore, in FY29 we would need to undertake a brownfield expansion to increase capacity from 30,000 tons to 60,000 tons. We still have 1 or 2 years, and over the next 6 or 7 years Neogen will have to continue adding capacity as required.

This addresses India's overall demand, how we see Neogen serving India's electrolyte demand, and your question about what happens in FY29 and FY30.

Internationally, the total world market is approximately 1.5 to 2 terawatt hours, or more than 1,500 gigawatt hours. China has the largest share, approximately 70-80%, followed by Japan, Korea, some countries in Europe, and the US, which has the largest facility outside China.

All these markets will grow. China has already achieved very strong EV penetration, although we are still seeing strong growth in solar in China. China is adding more solar capacity, particularly because of what has happened to oil over the last 2 years. It is trying to have as much solar capacity as possible.

Once solar exceeds 20-25% of grid capacity, additional solar cannot be added without energy storage. Therefore, energy storage system demand is also increasing strongly in China. We are also seeing solar growth in the US and Germany, where people are examining how they can deploy energy storage systems. This will be another growth driver for the energy-storage market.

As I mentioned, over the next 10 years India could reach 600 to 900 gigawatt hours, while the global market could reach approximately 6,000 to 7,000 gigawatt hours. India would therefore account for

Report is AI-generated and may contain inaccuracies.

approximately 7–10% of the global requirement, which would be a reasonable market share because India would also have strong internal consumption.

This is the global situation. Through the Neogen Morita joint venture, we are currently one of the 3rd or 4th non-Chinese suppliers of electrolyte salt.

For the next 3 or 4 years, the market will be policy-driven. In the US, certain subsidies are available only if companies do not depend on foreign entities of concern. Japan also has certain requirements, and Europe has been discussing reducing its reliance on China. We believe there will be a significant role for us to play.

That is what the joint venture has achieved. Previously, Neogen was primarily an Indian electrolyte manufacturer that also supplied some strategic customers in the US. It is now becoming a company that can stand on its own as an international-market participant.

International demand is also substantial. I do not have precise numbers for where we will reach, but even now, the contracts we have in place exceed our capacity. If everything goes well, we will have to add some electrolyte-salt capacity, especially if the Indian PLI is introduced and requires domestic salt consumption as early as the next financial year. We will therefore have to continue investing in the battery business over the next 7–8 years.

Sudhir Kedia: Understood. What kind of realization are you assuming in the numbers?

Management: Generally, for a stable lithium price, we expect electrolyte prices to be between 6 and 8 dollars per kilogram under current market conditions. I would estimate approximately 8 dollars for the initial period, up to 30,000 tons, and somewhere between 6 and 7 dollars per kilogram as we move forward.

On the salt side, assuming a stable lithium price of approximately 20 dollars for lithium carbonate, our average salt and additive price would be between 20 and 22 dollars.

Regarding the 5,500 tons and the 2,500 to 2,900 figure, if we consider 30,000 tons of electrolyte at approximately 8–9 US dollars, or roughly 8 US dollars, and if we use all the salt internally, we would be able to sell approximately 1,000 metric tons in the international market at around 20–22 dollars.

Together, this gives us revenue potential of approximately 2,500 to 3,000 crores.

Sudhir Kedia: That is helpful. I have one more question before I rejoin the queue. At what capex level will the incremental capacity addition come? We have spent approximately 1,800 crores on our 30,000-ton capacity. If we have to double the capacity, what incremental capex will be required?

Management: The 1,800 crores is for 30,000 tons of electrolyte and 5,500 tons of salt, which is roughly equivalent to approximately 45 gigawatt hours. The incremental capex we have generally observed is approximately 60–70% of the base.

Report is AI-generated and may contain inaccuracies.

If 30,000 tons of electrolyte and the salt together contribute approximately 1,500 to 1,600 crores, excluding some of the additional capacity we have only for salt, the next round would require approximately 60–70% of that amount for a fully integrated plant.

Sudhir Kedia: So approximately 1,000 to 1,100 crores would be required on an incremental basis?

Management: Correct. At least up to 100 KT, we can continue undertaking brownfield expansion at the existing site. I cannot provide a precise figure at this stage, but approximately 60–70% is what we expect the incremental capex to be.

Sudhir Kedia: Understood, sir. Thank you for the information, and I wish you all the best.

Management: Thank you very much.

Operator: Thank you. We will take our next question from Ashish Ajit Goelcha. Please go ahead and ask your question. I request participants to limit their questions to 2.

Ashish Ajit Goelcha: Hi, sir. Am I audible?

Management: Yes.

Operator: Yes, sir.

Ashish Ajit Goelcha: I wanted to ask about the offtake. You said that you are scaling {? Dahej ?} to 30,000 tons of electrolyte and 3,000 tons of salt. However, our channel checks suggest that take-or-pay arrangements do not work in the industry because buyers provide only annual, non-binding indications.

What percentage of the FY27 guidance and FY28 guidance, which are 300 crores and 1,000 crores respectively—please correct my figures—is backed by legally binding bilateral take-or-pay contracts, as opposed to rolling indicative purchase orders?

My second question is that Ola is currently our anchor customer. You mentioned that Exide's SVOLT chemistry and Amara Raja's Gotion chemistry are under qualification. If their underlying Chinese technology licensors mandate their own domestic Chinese electrolyte supply chains, how can Neogen contractually enter those relationships? I hope the question is clear.

Management: Ashish, as you rightly said, there are no take-or-pay arrangements. For electrolytes, we are relying on the fact that they have to be used locally and at a large scale. If the government comes in and the cost difference is significant, the transportation cost is also very low.

If a customer says that it needs a low price, the only option is to try to match the Chinese price. Technically, I can also procure all the raw materials from China, mix them in India, and supply the product to the customer. If the customer insists on a low price and we need to match China, we can source all the raw materials from China, mix them in India, and supply them. In that case, we can come very close to the Chinese cost. This cost will continue to change because raw-material costs keep changing.

Report is AI-generated and may contain inaccuracies.

Therefore, there is not a very large difference. The higher cost of manufacturing the electrolyte is offset by the savings against the higher cost of importing, storing at low temperature, transporting, and handling the logistics. If we produce everything ourselves, we could be slightly more expensive than China, depending on Chinese raw-material prices. However, if the government PLI is introduced, we would again be competitive.

The need for electrolytes to be purchased locally, combined with the absence of a significant price difference from China with or without a PLI, is one reason we expect to secure volumes. Our access to Mitsubishi and Morita technology, along with our ability to supply customers over the last 5 years, gives us the right to obtain a somewhat larger market share in India. These are the moats we have and the basis for our confidence in achieving the electrolyte volumes.

For salt, we do not have a take-or-pay arrangement. However, international customers have indicated that they will purchase at least 40% of the volume, directly or indirectly. Even if they purchase at least 40% of the volume, 70-80% of the capacity would still be utilized.

There is no take-or-pay obligation, but the customer loses something if it does not purchase the 40% volume. In that case, my responsibility to supply that customer in future years also goes away.

As I explained, there are only 4 non-Chinese electrolyte-salt suppliers. The US government requires customers to purchase from outside China. Similarly, there are only 2 non-Chinese producers of electrolyte additives, and customers also have to buy from them.

It is therefore important for customers to maintain at least the minimum volume they have committed to purchase in order to retain the ability to buy in the future. Even if they purchase only the minimum volume, 70-80% of our salt capacity would be utilized. This would give us revenue of approximately 700 to 800 crores, which gives us confidence in our guidance of more than 1,000 crores of revenue next year.

I hope this clarifies the situation. There is no take-or-pay arrangement. I would say that only some purchase orders for the current quarter, and perhaps some for the next quarter, for electrolyte salt or similar products are legally binding take-or-pay-type contracts. The rest of the revenue projection is based on the assumptions I explained earlier.

Ashish Ajit Goelcha: Sir, one more quick question concerns the debt taken from Vivriti and the debt arrangement. Do you expect this debt to mature in February or March 2028? What roadmap do we have? Do you think we will require another dilutive equity raise in the next 6-12 months?

What we want to understand is how management is working to reduce working capital and cash-flow issues. It would be helpful if you could provide some insight.

Management: These bonds, the Vivriti debt, and the other borrowings were taken when we were undertaking the major capex. We also had a fire, and some of the insurance proceeds were being received very slowly, while some had still not been received. We therefore had to ensure that the regular business was not affected by the fire at one of our pharmaceutical manufacturing blocks in Dahej.

Report is AI-generated and may contain inaccuracies.

A majority of this debt should be paid down through the proceeds of the last QIP, at least the long-term portion. The bonds and the other short-term loans that we have taken should be paid down, leaving us with only working-capital requirements.

Regarding working capital, we have already stated that the battery-material business has a revenue potential of approximately 4,000 crores, of which 2,500 to 2,900 crores will come from the battery business. This would be based on an estimated working-capital cycle of approximately 90 days.

We have only 2 or 3 products in this business, rather than 250 molecules as in our pharmaceutical business.

Harin: In the base business, we have already stated that we undertook significant capex based on the agrochemical industry. Unfortunately, the agrochemical industry experienced a slowdown. We therefore had to pivot toward flavors and fragrance and semiconductors to replace those volumes.

Just when things were stabilizing, the fire occurred. Maintaining the business and taking care of customers became the priority. All of this disrupted the business. Over the next 1 or 2 months, or by the next financial year, we want to focus on stabilizing the business.

This year, we will also achieve close to full utilization. Following the fire, the plant will restart very soon. Next year, we can utilize it fully. We can then gradually return, over the next year or the year after, to a working-capital cycle of approximately 120-140 days in the base business and approximately 90 days in the battery business. We will significantly improve our cash flow through these improvements.

Ashish Ajit Goelcha: May I ask one question, please?

Operator: Ashish, I request you to ask one last question. I am sorry to interrupt, but because of the long queue in the participant list, I request you to rejoin the queue.

Ashish Ajit Goelcha: No problem.

Operator: We will take our next question from Vishrut Bhupna. Please go ahead and ask your question. Vishrut, you are allowed to speak. Please go ahead.

Harin: Vishrut, you are on mute.

Vishrut Bhupna: I wanted to ask whether the tie-ups we have entered into globally with Japanese or Korean vendors are exclusive, or whether they are allowed to provide their technology to other Indian players as well. Which other Indian players are emerging as competitors in the production of electrolytes and electrolyte salts?

Harin: The Mitsubishi agreement is not exclusive. However, we are their preferred choice. The electrolyte-salt business is a joint venture, so that is exclusive in the sense that the joint venture will be the main vehicle through which they can sell lithium salts.

Regarding your second question, there is one other Indian company that has announced plans to produce cathodes, anodes, additives, electrolytes, and electrolyte salts.

Report is AI-generated and may contain inaccuracies.

Vishrut Bhupna: Can you share the name?

Harin: It should be easy to find through a Google search.

Vishrut Bhupna: Understood. Thank you.

Operator: Thank you very much, sir. We will take our next question from Shahzad Madon. Please go ahead and ask your question. You are allowed to speak. Please go ahead.

Shahzad Madon: Good evening, Harin. Congratulations on the excellent work you have done so far.

My questions are as follows. Your offtake is significantly dependent on what happens with the local cell manufacturers. While we are encouraged by your confidence in the domestic opportunity, our discussions on the ground suggest that things may take much longer than they appear to at first, both in terms of coming on stream and ramping up thereafter.

Assume for a moment that domestic battery-cell manufacturers are slow in taking offtake. What happens to your capacity? Exports are not really a significant option, correct?

At present, Ola is operating at slightly above 1.5 gigawatt hours, notwithstanding its overall capacity. Exide is only beginning to ramp up. Based on our understanding, the other companies are still some distance away. If things take much longer to get started, what happens then? We would be operating at much lower utilization. Is there a break-even level below which we would not be able to avoid losses?

There is also no scope for exporting this product if its practical shelf life is only 14 days. Therefore, we have to ensure that we supply domestic manufacturers. I would appreciate your comments.

Harin: If we look at the situation broadly, the positive point is that we can sell electrolyte salt. There is strong demand for electrolyte salt because production is already established in the US, Japan, and Korea, where there is strong demand for the product.

For example, if we produce zero electrolyte for India and use the entire capacity only to sell salts, the demand for non-Chinese supply is now so strong that we also have technology for purifying electrolyte solvents as part of our electrolyte-production process.

Electrolyte salt and additives are the highest-value components. The second-highest-value component, taken together, is the electrolyte solvent. If we do not produce any electrolyte for India and sell only the salt and solvents, we would still generate 70-80% of the revenue.

Therefore, we would most likely be above break-even as early as next year. By FY29, even under the scenario you described, with zero cell production, we would still generate revenue of approximately 1,300 to 1,400 crores or slightly more, depending on how much value we can obtain from the solvents.

Break-even or moving above break-even is therefore not a challenge. Based on what you discussed, I agree that we are considering a period of 2 to 2.5 years from today. We are assuming that we will be at 50% of the starting capacity at that point.

Report is AI-generated and may contain inaccuracies.

Under our full-utilization assumption, I do not see a situation where we would be at only 30% or 40% utilization if we are not at 50%. Even at that level, the revenue would already be more than 2,000 crores.

Shahzad Madon: Understood. That was very useful. Sorry, please continue.

Harin: The question is how we ramp up. Would we increase electrolyte capacity in FY29? Would we establish additional salt capacity in FY28?

Although this appears to be a very large step, if we look at the total addressable demand over the next 8 or 10 years, this is the smallest step we could have taken. Anything smaller would have suggested that we were not a serious player either internationally or locally. People would have asked what our capacity could do for them if it were this small.

This is therefore the smallest step we have taken. Regarding the increase from 30,000 tons to 60,000 tons, I was answering Mr. Kedia's question that, if everything goes well, even in FY30 the existing capacity would not be sufficient.

We have very good visibility that the 60 gigawatt hours will be installed. Installation is not the challenge because the buildings are ready, most of the equipment is available, and installation is progressing well. Installation should therefore be completed. The remaining steps are commissioning and stabilization.

Even if we give the cell manufacturers 3 years, we would still be short of capacity to reach full utilization. Historically, if a project does not work within 1 or 2 years, the company often gives it to a third party that has already demonstrated its capabilities. That third party can then use the facility and ramp it up because the equipment is relatively standard. I therefore do not see a major challenge.

Shahzad Madon: Understood. Thank you for that. One point is that the sector is very likely to receive government protection for obvious reasons. In your view, is that likely to happen only after a significant number of cell manufacturers go live? Otherwise, the benefit would accrue only to the couple of companies that are operational today. Is that a fair statement?

Harin: I think the government is also taking a constructive approach here. As we said, there are 6 gigafactory players establishing capacity. 2 of them, Reliance and Ola, are already qualified for the PLI. Ola has 20 gigawatt hours, and I believe Reliance has either 15 or 20 gigawatt hours.

In addition, the government is re-auctioning 10 gigawatt hours, and I believe it has set a limit of 3 or 4 gigawatt hours for a single company.

One moment. The structure is such that, when the 10 gigawatt hours are re-auctioned, at least another 3 or 4 companies will receive the benefit. Therefore, out of the 6 companies, either all 6 or at least 5 should receive some benefit, ranging from 3 or 4 gigawatt hours to approximately 20 gigawatt hours.

Their initial production, until they establish themselves, is therefore protected through the customer. This applies to cell manufacturing.

Report is AI-generated and may contain inaccuracies.

Regarding the second PLI, which concerns battery-material suppliers, the government had 2 options for protecting companies such as us. It could first observe cell manufacturing and determine the impact of the Indian component cost.

I gave you an example that, if I import everything without localization, my price is very close to the Chinese price. If I produce everything locally, there would be a difference of approximately 30-40%, although it would still not be very large. Other components face similar challenges.

The government's initial proposal when it established the ACC PLI was to keep all components free of customs duties until March 2026. By that time, the government expected companies such as Neogen to be ready, after which it intended to introduce customs duties.

However, it realized that, under the current circumstances, introducing customs duties could increase costs for cell manufacturers and make them somewhat less efficient. Therefore, it is considering a PLI under which all raw-material suppliers can offer prices close to China's prices to local cell producers. With the PLI benefit they receive, the cell producers would then be in a strong position to compete globally.

Operator: Thank you, Shahzad, for the question, and thank you, Harin. Due to time constraints, we will have to close the call. I would like to thank you and the participants on behalf of Arihant Capital for taking the time to join and share insights about the company.

There is still significant interest among participants. I request all participants with further questions to contact the team at Arihant Capital and the company's investor-relations team. We will address those questions through management. Thank you very much for attending the webinar.

Harin: Thank you very much for your time and questions. I am sorry that we had limited time, and I was traveling, so I had to keep the video off during the call.

Thank you again for your interest in Neogen. This is a very exciting time in Neogen's history, and we look forward to doing our best. We have already created the majority of the capex, and now we have to execute it over the next 2 to 3 years. We look forward to doing that.

Thank you for your interest. Take care and stay safe.

Operator: Thank you, sir.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.