

Transcript of 33rd Annual General Meeting of Kothari Fermentation and Biochem Limited

Silky Gupta: Good morning to each and every one of you at the 33rd Annual General Meeting of Kothari Fermentation and Biochem Limited. I, Silky Gupta, Company Secretary and Compliance Officer of Kothari Fermentation and Biochem Limited would like to welcome respected Directors and dignitaries.

- Mr. Pramod Kumar Kothari, Chairman and Managing Director
- Mr. Siddhant Kothari, Whole-time Director
- Mr. Rajeev Agarwal, Independent Director, Chairman of the Audit Committee and Stakeholder Relationship Committee
- Mr. Kuldeep Kothari, Statutory Auditor.
- Mr. Arun Sekhani, CFO
- Mrs. Priyanka Saxsena, Secretarial Auditor and Scrutinizer.

I would also like to welcome our shareholders and others present at the 33rd Annual General Meeting of the Company. Since the quorum of this AGM is present, I request the honourable Chairman to declare this AGM as open.

Chairman: Good Morning to everyone present here. Dear shareholders, ladies and gentlemen, since the quorum is present, I declare the 33rd AGM of Kothari Fermentation open. Mr. Siddhant Kothari, the whole time Director, is on my left. Mrs Silky Gupta is on my right and Mr Agarwal, our Advisor, is on the extreme right. They all are present in the meeting and are on the dais. Dr. Rajeev Agarwal, Mr. Kuldeep Kothari, Shri Arun Sekhani and Mrs. Priyanka Saxena, auditor and scrutinizer, are present through VC/ OAVM. It is hereby informed that the register of members, Directors, shareholding and other necessary statutory registers are open for inspection during this AGM. It gives me great pleasure to welcome you to the 33rd AGM of your Company. I hope that you must have gone through the annual report of your Company. I hereby take the notice as read by you.

Let me begin my address today with a look at the financial performance of the Company. During financial year 22-23, your Company has recorded a turnover of Rs.110 crores and has earned a net profit before tax of Rs 28.25 lakhs and a cash profit of Rs. 6.10 crores. Your Company has a favourable impact on the top line in the financial year 23. However there was a reduction in profits due to high raw material cost as the raw material that is molasses is now also used in the production of ethanol, which is being mixed with petrol. This has increased the prices of molasses tremendously and has dented the profitability of your Company to a large extent. The molasses prices are dependent on agro-climatic conditions and the Government's decision to increase ethanol blending. Today, we are faced with the challenge over the long term. The value of mitigating and adapting to climate change, natural disasters and extreme weather events, biodiversity loss and ecosystem collapse are perceived as being the severest global risk. These long-term risks are likely to be fuelled by the era that is characterized by low growth, low investment and low cooperation, the onset of which is already being felt by major economies across the world.

Against the challenging backdrop, Bharat appears to be the silver lining, earlier this year World Economic Forum referred to Bharat as a bright spot in a fragile world, lauding Bharat's efforts on several fronts including climate change, contribution to the global health care system and focus on Digital public infrastructure. Bharat's G-20 presidency had come at an opportune time. Emerging steadily from the shadows of being a poor nation, Bharat has been the fastest-growing economy in the last decade and is counted to become the world's third-largest economy by 2027 surpassing, Japan and Germany. The country's ambition to become a high-middle-income country by 2047, when the nation celebrates a hundred years of independence is a definite possibility.

The management of your Company continues to closely monitor any material changes to future economic conditions and thriving to compete in the market to become the strong leader in the Yeast industry. The company has entered into an agreement with a global leader in the manufacturing and marketing of new yeast products. It is expected that there will increase the production turnover and profitability of the Company during the current financial year 23-24 by utilising its available resources and operating facilities more efficiently and effectively. I take the opportunity to express my thanks to all the shareholders for their continued trust in the Board of Directors and the management of the Company. I look forward to your support in the Company's future. We now proceed with the business stated in the notice of the 33rd AGM of your Company. I call upon Mrs. Silky Gupta Company secretary to read the auditor's report.

Mrs. Silky Gupta: This is to inform you that the auditor report is unqualified. It is taken as read by the consent of the members. The e-voting procedure as per the Companies Act 2013 has been informed to all of you through notice of AGM dated 4th of September 2023 and also by the public notice published in the newspaper. The e-voting period commenced on Monday 25th of September, 2023 at 9:00 am and ended on Wednesday 27th of September, 2023 at 5:00 pm. Mrs. Priyanka Saxena, a leading practising Company secretary has been appointed as scrutiniser to scrutinise the e-voting process in a fair and transparent manner. This is to inform you that shareholders who have already voted through e-voting are not eligible to vote today and shareholders who have not voted through e-voting earlier can vote here by e-voting during the continuation of the AGM and within half an hour after the completion of the AGM. Now, I read the agenda item as follows:

Ordinary business

1. To receive, consider, and adapt the audited financial statement of the Company for the financial year ending on 31 March 2023, the report of the Board of Directors and auditor thereon. (ordinary resolution)
2. To appoint a Director in place of Mr. Pramod Kumar Kothari, who retires by rotation and being eligible, offers himself for reappointment. (ordinary resolution)

Special businesses

1. Appointment of Dr. Rajiv Agarwal as Director and non-independent executive Director of the Company (special resolution)

2. Reappointment of Mr. Hemendra Patsingh Dugar as Independent, Director of the Company (special resolution)

The result of the e-voting shall be submitted by Mrs. Priyanka Saxena in due course and same shall be posted on the Company's website within 48 hours of the AGM and will also be sent to the BSE for uploading on their website. There is an important announcement about two SEBI circulars. First, SEBI vide circular dated July 31 2023 has recently established an online dispute resolution portal for resolving the dispute in the Indian securities market. This offers online consolation and arbitration and benefits intermediaries. Your Company has registered on the ODR portal and the link of the ODI portal and the circular is also available on the website of the Company.

Second, SEBI, vide its circular dated September 26, 2023, has extended the last date for submission of KYC and nomination details of the shareholder to 31 December 2023. Therefore, it is requested to please provide your updated details. This circular is also available on the website of the Company.

The Registered speakers are now requested to kindly put their words forward one by one. Mr. Ankur Chanda. Okay next speaker, Mr. Kanwar I.S Sahni, Mr. Ajay Kumar Jain, Mr. Praveen Kumar. The next speaker is Sardar Jasmeet Singh. The next speaker is Mr. Keshav Garg. Okay, next Speaker is Ms. Sanjeev Damani.

Radha: Wait, ma'am, Keshav is there. Just a minute. Ma'am Keshav Garg right.

Keshav Garg: Thank you for providing me with this opportunity. I hope my voice is audible, Sir, I have already sent my list of questions. So Sir, if the same list is in front of you, I will not repeat them.

Pramod Kothari: Yes, I have your queries.

Keshav Garg: Sir, just one thing I wanted to ask you Sir apart from the questions that I have sent that our peak operating profit was Rs 18 crore, the EBITA that we did in FY 19, which is now half to Rs 9 crore and Sir, our operating margin has also reduced from a peak of 18% to 8%. So Sir, so basically if you could just let us know apart from the other questions, what is the reason for this, when do you see this trend reversing and when do you see us again re-achieving that or surpassing Rs 18 crore.

Pramod Kothari: Your question is good. I understand your question your question. In fact 2019 was a different scenario altogether when the molasses price was Rs 500 landed, and today it is Rs.1100 landed. So, one fact is the molasses we could not increase the finished goods price because of new competitors entering the who has put a very big plant, because of this you know the price could not be increased, and the profit margin has thinned down considerably and other overheads and electricity and other things has gone up during the past five years, 4-5 years. But our Company has moved to new products and hopefully by the end of this year we have entered in collaboration with an Israel Company to a new product which goes into vegan food in Europe and America. So if this product comes up, I

think our product margin will go up like anything, , we feel that the profit margin will go up. And apart from this we have gone into alcohol yeast production now, and this is only six months old. We are working very seriously on alcohol made from grain and grain-based alcohol yeast, and hopefully, we should come out in a month or two. This yeast has a lot of demand in the Indian market because of a lot of ethanol plants coming up, so hopefully by this year, December, our production should go up and our profit margin should go up like what we used to do in 2019, maybe much more than that. So we are working very hard because of the changing scenario, because of the new plant coming up, because of the molasses price going very high things have gone bad, but we are still making profits. We are not at loss here. But operating profits are still there yes, cash profit is there.

Keshav Garg: Sir, I missed what is the product with this Israel Company that we are making.

Pramod Kothari: We are going to make a powder, moving toward vegan food. The vegan food market is around US\$10 billion today okay. In Europe and America, the trend towards a vegan market. It is rapidly going up. It is going up by 10% every year. So you know they need nutrients.. So, you put this yeast powder, which is high protein, neutral taste yeast powder. So, it will give the same taste you know. It will not affect the taste of the original food, and simultaneously you get a lot of nutrients into it. Hence, this neutral taste in yeast powder is finding a good market and the Israel Company has first time developed this product. They have tied up with us. We are putting a small factory, a small facility to produce this neutral taste powder in our factory which we feel we should be able to commission by December or January. The profitability will then increase, we feel that.

Keshav Garg: And Sir, what about the existing business with ethanol, that you mentioned?

Pramod Kothari: That is again a new product; ethanol yeast is again a new product.

Keshav Garg: So Sir, basically after this grain-based yeast that we are trying to manufacture, the ethanol prices will become irrelevant for us.

Pramod Kothari: Yes, because they are importing this ethanol yeast. It is being imported at a very high price. So, we make that and we sell it here at a good margin. That's not a problem. They are already using it.

Keshav Garg: Sir, so last year we did almost 17,000 metric tonne volumes. So, what is the expectation for this financial year and what is the maximum sale volume that we can reach as per our current year installed capacity?

Pramod Kothari: I think this year we should be able to make nearly 20,000 tonnes and should be around Rs 125 crore turnover but next year will be more promising.

Keshav Garg: So, Sir next year, what volume can we touch?

Pramod Kothari: I think we should touch around Rs 175 crore next year. We are pretty close as per the plans.

Keshav Garg: And sir what kind of margin do you expect this year and next year?

Pramod Kothari: This year should be a little bit, it's not that I think we should improve on what we did last year. There should be an increase of at least Rs 1.5-2 crore, but next year we should be around Rs 15 crore.

Keshav Garg: So, Rs 15 crores is operating profit or net profit.

Pramod Kothari: Yes, that will be the profit after tax.

Keshav Garg: That is really encouraging, Sir.

Pramod Kothari: I think we should work on these, I think we should have a net profit of Rs 15 crores.

Keshav Garg: Sir, what kind of capex are we looking at?

Pramod Kothari: Capex around 90%. You mean the Capex investment? We are not looking at any investment now. All the investment has been put up. No investment for this coming year. No further investment.

Keshav Garg: And Sir, regarding our debt sir any plans to pay off our debts to reduce our interest burden?

Pramod Kothari: We are regularly paying. Last year, two years back it was Rs 20 crores outstanding loans. Today it is Rs.11 crores. It has gone down by Rs. 9 crores. I feel that in 2 years' time, our debt should be zero.

Keshav Garg: Sir, but we have a current debt of around Rs 45 crores. Will we be able to generate Rs.45 crore cash flow?

Pramod Kothari: If you include Chaudhary Brothers, which is our parent Company, our own Company Chaudhary Brothers, so now the term loan as of today stands with the Kotak Mahindra, which is Rs 11.11 crores nearly and we have a working capital of Rs 13 crores. That's all, and some Rs 2-3 crores here and there. But in 2-3 years time we will bring our bank debt to zero.

Keshav Garg: Great Sir. Thank you very much, and can shareholders expect this Company to be a dividend-paying Company? How soon can we expect?

Pramod Kothari: Yes, yes. Why not? In a year or two when we finish up all our debt, we will maybe when the profit margin goes up we will pay dividends.

Keshav Garg: Great Sir. Lastly, what is our market share and where do you see this Company after 5 years in terms of topline, and bottom line?

Pramod Kothari: See, our market share is between 15-20% today, and since the demand in the market is growing, we feel that I think that our market share should remain constant in the Indian market, but if this Israeli Company, you know this product comes, i.e., the yeast powder, this entire product will be exported to Europe and America. So, the market share in the Indian market will be 20% in the coming years.

Keshav Garg: Sir, so this year FY-25 Rs 15 crore net profit, how much are we banking on this Israeli product, Sir? Is it a tested product, or, Sir, is it untested?

Pramod Kothari: It is a tested product. They were making this product in Canada with a very small quantity, but the production cost has gone up in Canada. So they have shifted to India now, okay? And there might be that within the first year itself, they will be working on 100% of their capacity here in India, and maybe in a year or two we have to increase the capacity again and India is also a big market for protein powder. We will not be working the yeast powder in the Indian market, but still, the Indian market is a big market. So, there are a lot of openings here also in India.

Keshav Garg: Sir, our inventory has also gone up drastically from Rs 5 crore in FY18 to Rs 22 crore in FY23 even though revenue has only increased by 25% during this period.

Pramod Kothari: The work in progress is going on for this production, and because of multiple products earlier, we used to have 2-3 products, today we have 8-9 products in our kitty. So, for every product we have to keep stock. So, I think that's why. It will remain because I think. After all, if the business grows, the stocks will remain like this.

Keshav Garg: Great Sir. Thank you very much for the time that you took to give all the replies. I am grateful to you, and Sir, best of luck to you and your team.

Pramod Kothari: Thanks for the query thank you.

Silky Gupta: The next speaker, Mr. Sanjeev Damani. No more speakers. So, I would like to Thank the Directors, all the panelists on dais, speakers, and also members for their consistent support and cooperation in the conduct of this AGM and making it a success. Thank you.

Pramod Kothari: Ladies and gentlemen, thank you very much for using your right to vote democratically and attending this AGM. The business of the 33rd AGM being over, I declare the meeting concluded. Thanks.