PI Industries Limited

Q3 & 9M FY19 Earnings Conference Call Transcript
February 12, 2019

Moderator Ladies and Gentlemen, Good Day and Welcome to the PI Industries Limited's Q3 & 9M FY19 Earnings Conference Call. As a reminder, all participants' 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 an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, Sir.

Siddharth Rangnekar

Thank you. Good afternoon, everyone and thank you for joining us on PI Industries' Q3 & 9M FY19 Earnings Conference Call. Joining us today are senior members of the management team including Mr. Mayank Singhal – Managing Director and CEO; Mr. Rajnish Sarna – Executive Director and Mr. Subhash Anand – Chief Financial Officer.

We will begin with key thoughts from Mr. Mayank Singhal; thereafter we will have Mr. Subhash Anand, sharing his views on the financial performance of the Company. After the opening remarks from the management, the forum will be opened for question-and-answer session.

A cautionary note before we begin, certain statements made or discussed on the conference call today may be forward-looking statements and a disclaimer to this effect has been included in the 'Results Release' shared with you earlier.

I would now like to request Mr. Mayank Singhal to share his perspectives with you. Thank you and over to you, Sir.

Mayank Singhal, Managing Director & CEO

Welcome to you all for joining us on call today.

It gives me great pleasure to talk to you after PI has delivered yet again a successful quarter demonstrating robust growth across domestic and exports operations.

On the exports front, we are seeing a rising momentum. We have seen a commendable scale up in production and supplies over last two quarters and good conversion of enquiries also taking place resulting in improvement in long term visibility.

We see a significant growth potential ahead of us and therefore intensifying additional capacity built up to capitalize this opportunity. We have very recently commissioned a new Multi product plant at Jambusar, another one should get commissioned in the next quarter and also initiated construction work for two more MPPs. This will give us increased headway to deliver growth in the coming years as we witness an uptick in requirements from our global partners

On domestic front, we have witnessed inconsistent rainfall in Rabi season in central and Northeast India While the agchem industry has seen overall sales volumes improving YoY, the pace has been moderated. A key challenge has been the low price realization to farmers of agri-produce.

We have been focusing for the past couple of seasons on enhancing our reach in key crops and offering a compelling mixture of brands to boost crop yields and productivities. We have received a rousing response from the market for our frontrunner products that were launched over the past 2-3 years and their share continues to grow.

There is a systematic approach that we take to nurture brands with village and farmer level activations, demonstrations coupled with various Services & solutions that carried out in order to establish the brands. And this trend is reflected in the performance of the domestic business.

Progress on our R&D pipeline has been satisfactory and in line with our plan and we intend to commercialise some of these products in the coming quarters.

We remain optimistic of registering a healthy performance in FY19 in line with our plan and work towards clearly defining strategies business plan sustaining this growth momentum for next several years.

I will now request Subhash to share his perspectives on the financial performance of the company in Q3 & 9M FY19. Over to you, Subhash.

Subhash Anand, Chief Financial Officer:

Thank you Mayank. A very good afternoon to all of you. I am happy to take you through the financial highlights for Q3 & 9M of Financial Year 2019.

Our total revenues stood at Rs 708 crore in Q3 FY19, higher by 32% as compared to the corresponding period last year. Export operations reported 40% growth during the quarter up from 386 Crs to 540 Crs. This is result of upsurge in global demand of our existing & recently commercialized products and sustained build-up in execution momentum. The domestic business grew at 9%, up from 152 crs to 167 crs backed by healthy growth in key brands despite softer demand given the poor distribution of rainfall in Rabi and lower agri-produce prices. EBITDA for the quarter stood at Rs. 149 crore, margins came in at 21%, aligning to better product mix, improved realizations and operating leverage. Our PAT for the quarter stood at Rs. 107 crore higher by 33% as compared to the same period last year.

Coming to the 9M FY19 performance, we have registered a healthy performance with growth of 23 % as compared to the corresponding last year. EBITDA stood at Rs. 401 crore, translating to EBITDA margins of 20%. Profit after tax came in at Rs. 283 crore.

Our balance sheet further strengthened during the quarter on the back of consistent build up in performance. Our Net Debt position was almost Zero. Cash surplus was at Rs. 204 crore as on December 31, 2018.

With that, I conclude the highlights and request the moderator to open the forum for Q&A's. Thank you

Moderator Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Atul Tiwari from Citigroup.

Atul Tiwari Congratulations on strong set of numbers. My first question is on the breakup of revenue. What the breakup of revenue in terms of the domestic agchem and exports revenue, the absolute numbers in this quarter?

Subhash Anand In fact I just mentioned in my commentary. The domestic revenue is at Rs. 167 crore and export revenue is Rs. 541 crore. Last year corresponding revenue domestic was Rs. 152 crore and exports were Rs. 386 crore.

Atul Tiwari And a bit of a forward looking question. So, obviously your export revenues have been growing quite sharply over past two quarters. So how does the next year appear, can we expect the similar kind of 30% - 40% kind of growth as the demand is improving?

Rajnish Sarna As we have guided earlier as well that we are expecting to sustain 20% plus kind of growth rate for next several years and this is the kind of visibility we have.

Moderator Thank you. The next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar Just wanted to check on the footnotes you had given some changes with respect to the accounting norms. If you could just explain what was the impact that you accounted for this quarter?

Subhash Anand In fact Vishnu, this is in line with IND-AS 115 since most of our contracts are long term contracts, now revenue recognition is realized not based on terms of the contracts, actual shipment, CIF reaching material but based on if we have a production ready the revenue recognition get recognized. So it is just a timing issue, I will not say it is an earlier late realization or export realization it is just a timing issue something which was to happen in January would have happened in December. Absolute amount if you need to talk about the revenue is approximately Rs. 60 crore which got recognized in this quarter.

Vishnu Kumar So the corresponding PAT numbers is what you have mentioned in this quarter?

Subhash Anand Yeah, it is there in the footnote already.

Vishnu Kumar Okay so going forward you would be giving these numbers every quarter, how much would you have accounted as part of this?

Subhash Anand It is only a requirement of this year because IND-AS it is the first time accounting standard change which happened, after that it will be business as normal because then the reporting will be like-to-like basis.

Vishnu Kumar Okay from next year onwards, you will not have separately this number that will be given out?

Subhash Anand No, it is not needed.

Vishnu Kumar And in terms of the new plants, has both the plants started or it is only one of the plants if you could just give a little bit more explanation on that?

Rajnish Sarna Yeah, so we have very recently, last couple of days we have commissioned one of the multi-product plants. The other multi-product plant is expected to get commissioned in the next quarter and at the same time in the commentary we said we have also started construction work on two more multi-product plants.

Vishnu Kumar These two new plants, when are they likely to come on stream?

Rajnish Sarna So they are expected to get commissioned somewhere in the first quarter of FY2020.

Vishnu Kumar First quarter of Financial Year 2020?

Mayank Singhal Calendar year 2020, January to March.

Moderator Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital.

Ritesh Gupta Congratulations on good set of numbers. I think on the employee cost side, I just wanted to check that since last few years we have seen a substantial boost up in the employee cost, let us say as a percentage of sales it has gone up from 7% to 10.7% and probably similar number this year. I just wanted to get a sense on what is this like, say you doubled your R&D and probably you might have hired more people in business development or senior management as well.

So just wanted to get a sense what is this employee strength being used for, what kind of initiatives you are taking and what all you are doing on the future growth initiative side? Plus I just wanted to get a sense that the plant that you have commissioned, so you had two plants one was a revenue generating plant and other one was an intermediate probably 'Monomethylhydrazine' is what I think you told last time. So is it the first one which has been commissioned or it is the MMH plant which has been commissioned this quarter?

Mayank Singhal Well, I can just go to the employee cost. The focus on the employee cost is obviously the company is looking to expand its bandwidth, increase its human resources in terms of capability and leadership for the future growth with investments going into R&D and capability build up.

And obviously as you know when we are looking at growth, we are not going to be hiring people just then. They got to be hired well before in order to be aligned to the requirements and then get into the phase of growth. So that is on the people front. Obviously for the plant we have two plants. That is just the plant for products but one of the plants which ~~has~~have started is for a product which is for an export purpose.

Inspired by Science

Ritesh Gupta I mean my question on employee cost was more on what kind of initiatives you are taking, you said that new chemistry platforms if you could just dwell up on it a little bit that what direction you are going in to?

Mayank Singhal So we have developed Chemistry platforms which are going to be more process technology oriented to make sure that we can give more value added offers to customers.

Ritesh Gupta And any update on the pharma side of things, is there some development on that side have you come across anything?

Rajnish Sarna So nothing concrete as yet as far as inorganic option is concerned if you are talking about that. But in terms of our organic efforts yes, we are already working on several products in our pipeline which are early intermediates in pharma, and we are going further on them. And at the same time, we also keep evaluating several other options on inorganic side but nothing on advanced stage as yet.

Ritesh Gupta And on the two plants, what is the CAPEX you are looking at, the new two plants that you are planning to commission in by Q1 CY20?

Rajnish Sarna So we have for next couple of years may be close to Rs. 300 crore every year kind of investment plan, Rs. 300 crore to Rs. 350 crore.

Moderator Thank you. The next question is from the line of Amar Maurya from Emkay Global.

Amar Maurya Firstly, on the export side of our business, what would be the broad breakup between the volume and the pricing growth during this quarter?

Mayank Singhal There is no specific number on the volume and pricing because there is no average price.

Amar Maurya So, my question is that largely this bulk of the growth is largely driven by the demand volume driven?

Rajnish Sarna Yes, you can say so.

Amar Maurya Secondly, the new product contribution, the bulk of the growth I am assuming that is from the existing product line or it was also driven by the new product and what would be the contribution in case if you can help us?

Rajnish Sarna Yeah, so in this particular quarter yes, I think close to 10% to 12% has come from new products that we have launched last year or so and the rest of it is coming from scale-up from our existing products.

Amar Maurya And, largely in exports which are the key geographies growing for us?

Rajnish Sarna Frankly, we are supplying these products to all these global companies who are selling these products across all geographies. The customer would be say for example in Japan, but products are getting sold in America and Europe and Asia. Same way, a customer is in US but products are being sold in Asia and Europe and Japan and everywhere.

Amar Maurya This new plant which got commissioned this is I believe a dedicated plant for one particular product, right, so what would be the capacity today and what are the kind of sweat asset we expect from that particular plant and what was the investment if you can?

Rajnish Sarna Yeah, so these plants are multi-products plants and whether it is dedicated or used for multiple products depends on the volumes of the products that we are currently doing. So currently, we will be starting one product and depending on the volumes it will be occupying the space over the 12 months. The investment is close to Rs. 150 crore to Rs. 155 crore.

Amar Maurrya And what would be the kind of sweat asset ratio we expect in this fixed asset turnover ratio?

Subhash Anand Normally if you have seen, our asset turn especially in this business is around 1.6x, so that is what we expect 1.5x - 1.6x to continue on this.

Moderator Thank you. The next question is from the line of Aditya Jhawar from Investec.

Aditya Jhawar Congrats on the excellent set of numbers. The export growth has been pretty strong so if you can highlight couple of things. Number one is that has there any commissioning of a new molecule that the execution started in this quarter? That would be number one.

Rajnish Sarna No, it is not coming from any new product starting in this quarter but couple of products which we had commissioned and commercialized in last two, three quarters they have got scaled up and apart from that, some of these existing products because of demand upsurge there is increased volume or increased supplies in this quarter.

Aditya Jhawar And, what is the sense on order book for this quarter?

Rajnish Sarna As of today, we have close to $1.3 billion, so there is growth in our order book. Currently, we have close to $1.3 billion around that.

Aditya Jhawar And, on the domestic business our performance was also pretty good especially when you see the acreages of paddy. So if you can help us understand what could be broadly the revenue contribution by crops, so paddy would be how big for us and what are the things that we are doing so that the growth was so good?

Mayank Singhal Well, let me answer this. What we are doing is something which I would call it as trade secret. We have taken monthly crop approach obviously in the Rabi. The paddy has not been the best at this point but we have been able to compensate this by pushing pressures in to different and more value added crops, at the same time our molecules have been well accepted, the products there that we launched over the last few quarters are well accepted and they are in the growth phase. So overall the company has been able to strategically pursue itself into a growth space for our products that is playing around with.

Aditya Jhawar And, revenue contribution for paddy as a crop, how big paddy is for us?

Mayank Singhal I do not have that with me now and that is something which we do keep close to our chest. Yes, but majority of the revenue contribution does come from paddy for the company.

Aditya Jhawar The margin performance was pretty encouraging if you can throw some light on what are the issues with regard to China, are they behind us are you seeing some kind of improvement or have you been able to develop alternate supplies?

Rajnish Sarna Well, Chinese situation is certainly kind of I would say stabilizing if we compare it with say two quarters before. But not normalized as yet although expectations are that may be in next one or two quarters the way the Chinese economy is kind of doing people are expecting that they may go easy on chemical industry and things may further improve from here. But as of now I would say it is kind of stabilizing, it is not normalized as yet.

There are still challenges in several raw materials and products and that is the key reason for cost going up mainly for generic products and some of these specialty intermediates. So that is the overall Chinese situation. As far as our raw material sourcing is concerned as we discussed in earlier calls also that for last one, one-and-a-half years we are putting in very focused efforts in developing alternative suppliers in India and other Asian geographies and we have been pretty successful in doing so.

We have substantially reduced our dependence on Chinese suppliers anywhere between 35% to 40% couple of years back to may be now less than 20% today and this is expected to further go down in next six to eight months. And we have been able to kind of securitize most of our key raw materials through developing these alternatives in different geographies and also in India.

Moderator Thank you. The next question is from the line of Abhijit Akela from IIFL.

Abhijit Akela Just few clarifications. One is obviously the revenue growth this quarter is not comparable on a Year-on-Year basis because of the shift to IND-AS 115. So just wondering if it is possible to give us a like-to-like comparison of what revenue last year in 3Q would have been if you had IND-AS 115 and therefore what is the Year-on-Year growth would be?

Subhash Anand Abhijit, that comparison is actually difficult because we have not adopted an option of restating our last year numbers, so the numbers are actually not comparable and we will not be able to give you that number had we implemented IND-AS 115 last year what would have happened. So strictly not comparable that is what I will say.

Abhijit Akela And I also just wanted to check last year in Q4 I believe we had sort of not recognized about Rs. 74 crore revenue, right which directly went to the Net Worth there was shift in accounting. So for this year Q4 again the base will become much easier in that regard, right? Is that a correct assessment therefore the Year-on-Year growth will probably optically look significantly higher than normal?

Rajnish Sarna You are absolutely right, your assessment is right that this quarter base would be obviously because of this Rs. 60 crore plus revenue which got moved to next quarter or first quarter of this year which also got kind of directly figured in the Net Worth. To that extent yes, the last year data would be to that extent not comparable.

Abhijit Akela And so really the apple-to-apple comparison will become visible only from FY20 onwards?

Rajnish Sarna Yes, you are right.

Abhijit Akela And also just one clarification, regarding the last year's revenues that you gave for Q3 I previously had a slightly different breakdown between domestic and exports. I had I think Rs. 170 crore for domestic and Rs. 368 crore for exports, these were the numbers given on last year's Q3 call. So just wondering if there has been any reclassification of revenue?

Subhash Anand In fact post IND-AS, we had a reclassification and we have done a right number because when we close our annual and when we gone back and set our number we got that difference and we have restated our number. This was circulated to everybody I think you would have missed out. So I will ensure to circulate you that number.

Abhijit Akela And lastly, just on the margins now are we standing by the 21% expectation for FY19 overall?

Subhash Anand Yeah, it will be around 21% that is what we maintain. So we are seeing it should be in the same range.

Abhijit Akela Right so Q4 will need to be I guess somewhere north of 24% probably to hit that number so as per you on the current run rate you are on track to hit that?

Subhash Anand Yeah, let us hope so that is what we are running for.

Abhijit Akela And one last quick clarification. The new CAPEX that you have done, I previously believed there was one project which was for backward integration and the other one was for capacity expansion. So is that understanding correct or both the multi-products plants coming up for new capacities?

Rajnish Sarna No, so obviously both are for new capacities but yes, one plant which is recently commissioned is for supply of a product where we have a long term understanding and all. The other plant was mainly for one technology that we are kind of commissioning. And on top of that we are also adding couple of products. So that plant is expected to get commissioned sometime in the next quarter.

Subhash Anand And that is not just backward integration, that plant also will bring some revenue. So it is not zero revenue from that plant.

Moderator Thank you. The next question is from the line of Ashit Panjwani from AP Securities.

Ashit Panjwani Congratulations for great set of numbers. Just want to understand qualitatively what are the kind of factors which have been responsible for us to deliver such a great growth and what are the kind of initiatives which really, we are taking to kind of ensure that we deliver similar kind of performance moving forward?

Rajnish Sarna The fundamental point in the business model that we operate is that the kind of product portfolio that we have, the early stage molecules that we are doing, where the growth is natural trend and this is what we are seeing that products are scaling up as the global partners are kind of launching these products in different geographies, different countries.

So I think the key aspect is the business model, the kind of products portfolio that we have, both in our exports as well as in our domestic business where despite not a great monsoon and agro climatic conditions we have been able put up more than 20% growth in the domestic business, talks for itself this is basically driven by the kind of products portfolio that we have.

Apart from product portfolio yes, the kind of effort that our team is putting in both in our domestic market and also in export area, the kind of efforts which we have put in, in streamlining our operations, cost management, technology is another major area where a lot of efforts are being put in to keep improving the processes whereby not only improving the profitability but also kind of retaining the customer and growing deeper with our customers. So these are several such factors which are constantly driving growth and giving us confidence that we can sustain this sort of growth in future as well.

Ashit Panjwani I just have one more question. The CAPEX which you mentioned about Rs. 300 crore to Rs. 350 crore every year moving forward almost for some time, would that be internally funded or do we plan to raise some kind of debt to fund those operations, to fund that CAPEX?

Rajnish Sarna So our current estimates are that most of this CAPEX will be internally funded. We will be able to generate enough cash to fund the CAPEX.

Moderator Thank you. The next question is from the line of Kunal Mehta from Vallum Capital.

Kunal Mehta I just wanted to understand that given the background that was there in the last two quarters whereby intermediates were in a very short supply especially in countries like Germany because of the dry weather we have seen Rhine river drying up and there was a problem of shortage of intermediates in chemicals across the country in Germany. So is this some part of the dispatches which we have seen this quarter attributable to the supply tightness that was there in the geography in Germany?

Rajnish Sarna I am not sure this particular reason that you are describing was anyway any issue. I think the shortage of intermediates supply was more on the raw material front particularly from China. But otherwise, it is nothing like that some shortage in Germany or in a particular country is kind of driving this growth. No, that is not the kind of situation.

Subhash Anand Plus we are not in early intermediates, most of our products are API, which is upscale chemistry, so does not fit in to that kind of an intermediary definition.

Kunal Mehta Just one more question. The products that we manufacturing the ingredients are they used or applied in the presently available commercial molecules or are they used in the molecules which are going to be commercialized by your partners in the future?

Rajnish Sarna No, so the commercial supply that we are making are part of commercial products which are already commercialized because these are large volume products.

Kunal Mehta Okay but these are the newer ones which they have launched through the R&D?

Rajnish Sarna Yes, they are at early stage of their lifecycle. This is the only difference. These are not generics or commodity products. These are early stage of their lifecycle.

Moderator Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers.

Chetan Thacker I just wanted to understand how big is 'Phorate' for us, is it more than 10% of revenue and as per the new notification so from December 2018 can we continue to manufacture that for exports while it will technically be banned for domestic market? Is that understanding correct?

Mayank Singhal It is not 10% of our revenue, number one. Number two, it is clear that it will continue to be manufactured for exports.

Chetan Thacker And, I just missed the CRAMS number for the quarter the absolute number?

Subhash Anand Rs. 540 crore

Moderator Thank you. The next question is from the line of Prashant Biyani from Prabhudas Lilladher.

Prashant Biyani Any particular reason why we have not launched the wheat herbicide in the current Rabi season?

Mayank Singhal Well, we are waiting for the approval.

Prashant Biyani Okay so we have not got the registration from CIB yet?

Mayank Singhal No.

Moderator Thank you. The next question is from the line of Saurabh Jain from HSBC.

Saurabh Jain Just to get my understanding right. So the next plant that is commissioning next quarter it is largely for backward integration?

Mayank Singhal Yes.

Saurabh Jain So probably not much of revenue flowing out of it?

Subhash Anand Some revenue, yes. That is what I have stated earlier also.

Saurabh Jain And the two more plants that we would be initiating probably next year these will be the usual plants meant for generating revenue?

Subhash Anand Yes.

Saurabh Jain And also on the exports side, so lot of volume driven growth. Can you give us more insights on to whether the global AgChem has gone back in to an up cycle and this is largely reflecting high demand from the industry or it is more due to gains on the market share side for PI or replacing the Chinese suppliers looking out for alternative supplies replacing the Chinese supplies?

Rajnish Sarna Yeah, there are several reasons. So one is that obviously the overall global market situation has relatively improved and in particular it has improved for the kind of early stage molecules that we are doing. We cannot generalize it has improved for every product, no. But it has certainly improved. The scenario has certainly improved for the kind of products that we are doing. And this is the reason that the off take has increased, inventory levels in the channels have reduced and this is clearly now reflecting in the schedules that we are kind of getting from our customers for next several quarters and all.

So that is one reason. In general yes, some such upsurge from supplies or off take on manufacturing and supplies from India is also on account of challenges in China in general more so in case of bulk chemicals and also in certain cases in case of specialty chemical as well.

Saurabh Jain And lastly, when you tell us that the overall exposure to China raw material is less than 20%. What about the products that we are importing in the finished shape, what is the reliance from China for manufacturing those products?

Rajnish Sarna No, there is no reliance because we are not importing finished products from China.

Saurabh Jain No, not from China but probably we have some international arrangements so I am just trying to understand whether we are importing any products directly from the players who have licensed us. Any imports that we are doing directly in the finished shape?

Rajnish Sarna From China?

Saurabh Jain No, so probably the guys where you have the co-marketing arrangements?

Rajnish Sarna Yes, we do that.

Saurabh Jain So those products when you are bringing to India what is the manufacturing behind those products?

Mayank Singhal Are you saying that the products that we are importing which are new products are they manufactured in China and therefore what is the risk?

Saurabh Jain Yeah, so either in China or if they are manufactured in Japan?

Mayank Singhal These are new innovative products but the ones that we know most of them are not been manufactured in China. Generally the global companies are not putting in their innovative products in to China so we do not see much related risk for the larger part of the revenue. There might be some smaller parts to the intermediates from the domestic business.

Moderator Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar So, any Forex impact in this quarter?

Subhash Anand Yes, we do have FX gains and it has impacted both sides, one is our revenue is up because of FX gains. Second, since the raw material gets imported it has an impact on cost side also. So net-net if I see we have gained in this quarter because of FX.

Sumant Kumar How much?

Subhash Anand I do not have the number right in front of me but it should be somewhere Rs. 8 crore to Rs. 10 crore kind of thing

Sumant Kumar That is net item?

Subhash Anand Yes, that is a net item.

Sumant Kumar So any indicative number which is included in CSM in Forex side? Forex gain is included in CSM?

Subhash Anand Yes, that is part of the revenue recognition, so Mark-to-Market gain that has come in is part of the revenue.

Sumant Kumar So that is the net item you are importing, so what I would like to know the Forex gain in CSM so the total revenue in this quarter is around you said Rs. 541 crore?

Mayank Singhal We would not have the exact number because as you know that we have always a share and pass through kind of a model and approach, so I do not think we have the exact number. May be we can take that offline later.

Sumant Kumar And when we talk about the domestic growth of 9% to 10% so what would be the existing products growth and what is the growth that is coming from the high value products which you have launched recently?

Subhash Anand No, in fact growth is coming from both side of the product portfolio what we have. The products which we have recently launched, when I say recently means this year and last year, they also have done pretty well and gave us a decent growth plus some of our flagship products also are growing very well. So the growth coming from all pockets, it is not just contributed by one factor.

Sumant Kumar So can you tell us what is the existing product contribution and what is the new product contribution?

Subhash Anand I do not have this data right in front of me but maybe we can share this later.

Sumant Kumar And this Rs. 300 crore to Rs. 350 crore you talked about the CAPEX for two plants upcoming plant in FY20, right?

Subhash Anand Yes.

Moderator Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal On gross margins, we have had some dip in the gross margin in this year versus the historical margin that we have generated while there have been some pressure obviously because of China and all in this current year but structurally is this is the new normal for the gross margin for the business or you see meaningful improvement as we go forward?

Subhash Anand No, I think we have maintained our earlier commentary also sustainable margin in this business we see around 21%. That is the long term view which holds since our investment in growth will continue. So we are holding on to our earlier guidance.

Nitin Agarwal My question was more on the gross margins, on the contribution margins?

Subhash Anand Contribution margin, I think this should be the number which is sustainable at this point of time.

Nitin Agarwal And secondly, on the CSM business with a line of size that you have on the business you see the lumpiness to continue in the way it has been for the last few quarters or you see more consistency in the way the revenue is going to come through on this business over the next four to six quarters?

Rajnish Sarna Well, it looks to be more, I would say current levels are more sustainable. There is clear visibility and these are all very stable products now in the run. So compared to say last one, one-and-a-half years, next four to six quarters look pretty visible and also stable.

Nitin Agarwal And, a linked question on that. So in terms of growth that we talked about I think about 20% growth in this business for several years to come, that is the thought we have on the CSM business right, just to confirm that?

Rajnish Sarna Yes, that is right. In fact I was responding to the other gentleman who said that whether we will be able to sustain 40% growth. So to that I was responding. It is not 40% plus but yes we are still confident of sustaining 20% plus kind of growth rate. And why we have got 40% is because ,we in the beginning of the year we had clearly guided that this year growth would be back-ended while in first quarter the revenues were almost flat but then we started growing from second quarter onwards and now we are picking up in the third and fourth quarter. So overall growth for this year also would be 20% plus and that is what our clear visibility for next several years.

Nitin Agarwal And what proportion of this growth if it is possible to dissect that will come from the products that you have already commercialized and which is probably secured growth and probably the residual will come from the new product launches that you will do as you go forward. Is there a way to sort of broadly break it up?

Rajnish Sarna Well, there is certainly a way but most part of it I would say at least for next one or two years is all that is clearly visible and even for following year I would say 80% revenue there is a clear visibility in terms of the long term contracts either are in place or these products are already kind of being done and supplied. So there is no contingencies as such of successfully developing in the R&D pipeline and commercializing. That is not the kind of situation. So more than 80% I would say for even third, fourth year is kind of assured and confirmed. Visibility is very clear.

Nitin Agarwal And lastly just on that question. Our revenues have increased or are increasing meaningfully while we are reinvesting back in the business. What are the areas where we are reinvesting back so that our EBITDA margin guidance that we see we are still seeing a cap of around 21% because ideally at about 50% plus gross margins with the revenue growth we should be able to generate some meaningful operating scale right or operating leverage?

Rajnish Sarna That is true, but we are at the same time as we also discussed in earlier quarter we are continuing to invest in technology. We want to broad base this growth not for next couple of years but pretty long-term. And for that reason, we are continuously investing in R&D, we are continuously investing in building resources, people, staff cost we were discussing earlier and the kind of exploring other verticals, chemistry verticals to kind of keep growing and sustaining this growth. So there is a lot of development expense that we are incurring which is the reason that we are very cautious in kind of giving guideline in terms of EBITDA growth.

Moderator Thank you. The next question is from the line of Manasvi Shah from ICICI Prudential.

Manasvi Shah Congratulations on a great set of numbers. My question is more on the domestic business. We have seen your other listed players coming out with numbers and their numbers are pretty muted to say the least. So in the coming quarters especially in fourth quarter etc. do we see any sort of sales return pressure from our channel inventories?

Mayank Singhal No, we are a little conservative in that approach, and we do not see that pressure because we have in any case a very strong sales return policy and no stock return policy which is well established in the market. Hence, we have already seen certain parts of that sales impact in this quarter compared to what we really targeted. So we do not see that challenge compared to our competitors because we have conservatively and tactfully very well handled the channel inventories.

Manasvi Shah Okay so while for your export business you have given a clear guidance, what sort of growth are you looking for in your domestic business?

Mayank Singhal We definitely expect to see a double-digit growth in the coming year.

Manasvi Shah Double digit topline growth?

Mayank Singhal Yes, by the end of the year.

Moderator Thank you. The next question is from the line of Rishabh Bothra from Sharekhan.

Rishabh Bothra What kind of margin expansion can we see on account of the CAPEX which will be completed or concluded next quarter?

Mayank Singhal Well, I do not think that you should look at it as a margin expansion as it is backward integration for supply securities and not all of it is for backward integration. It is also for enhancement of capacity as we mentioned earlier.

Rishabh Bothra And the other CAPEX which will be concluded in FY20 what kind of asset turn we will have or what kind of capacities will it add to our existing capacity?

Subhash Anand Our asset turn in this business will be 1.5x to 1.6x and we should expect similar thing even from new capacities.

Rishabh Bothra So you mean to say Rs. 350 crore that is around Rs. 475 crore to Rs. 500 crore?

Subhash Anand Similar lines.

Rishabh Bothra And this will be coming up in FY21, I mean revenues?

Subhash Anand Yes, commissioning we expect last quarter of next year so naturally FY21.

Mayank Singhal The first quarter of 2020 next financial year.

Moderator Thank you. The next question is from the line of Siddhartha Bhattacharya from Anvil Wealth.

Siddhartha B I wanted to understand the geographical split of revenues a bit better. If I look at the reported numbers in terms of geographical split in the annual report there seems to be a decline from the North America as well as Australia regions, specifically Australia. So could you help me understand this better was it like specific customer issue or is it that these are being rerouted from other geographies now?

Rajnish Sarna Yes, in fact frankly speaking I think I explained earlier also to the other participants that our supplies are to our global partners customers and they are present in different geographies. So we do not kind of look in to too much into what country they are supplying and which countries they are routing their products and all that. And these global partners, customers are present in most of the countries. So therefore, for us the presence is in terms of global customer's presence.

Moderator Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities.

Rohan Gupta Just one question on this MPP you mentioned that you are going to put two more MPPs and one has already commissioned and one more is going to commission in next quarter. Generally we have a fair balance of MPP and single unit plant or dedicated plants.

Probably I think that in our history or may be of the CSM business of last five to seven years which I understand I think this is the first time probably we are putting more MPPs and we are not talking about dedicated plants. Is there any reason that we are putting emphasizing more on MPPs or you right now do not have enough visibility for putting a dedicated plant and that is why we are going to put first MPP and then want to see it ramp up to put later a dedicated plant?

Rajnish Sarna Not really, actually all of these terminologies is being used very freely. We call all these plants MPPs by the way. Today we would have say close to 8 or 9 plants and all of them we call MPP. Even if we are producing one product throughout the year we call that plant MPP because that plant is a multi-product plant and if we want, if the volumes of that product that we are producing is not requiring all 12 months we can with some little effort can modify the plant and use that plant for some other product.

Rohan Gupta So I mean right now we are using that term freely for all the plants?

Rajnish Sarna Yes.

Rohan Gupta Rather than differentiating for the dedicated plant?

Subhash Anand Our plants are MPP it is upon us whether we use it for dedicated products or not to use it.

Rajnish Sarna And this will all be driven by the demand of that product that we produce there. So for example even in these new plants that we are talking if we are getting enough volume for one product throughout the year we will be producing that product in that particular plant for full year.

Rohan Gupta Because my understanding is generally when we put a dedicated plant our capital cost comes down by almost 25% to 30% because that is the dedicated plant and that drives?

Mayank Singhal We cannot say that with the paint brush approach, each product chemistry and design concepts and engineering is particular to an organization and its innovative thinking. So I do not think that applies in the concept here. It is the quality of asset and this is also a strategy in IP of design which each company has.

Rohan Gupta Your investments you mentioned roughly Rs. 350 crore will go in these two MPPs and what is the CAPEX for second MPP which you are going to commission next quarter?

Mayank Singhal It is the part of this CAPEX that we have already stated. Part of the CAPEX as you would see there is revenue requirements are also changing so capacities are being enhanced based on the pipeline in order book position. We continue to invest in CAPEX in line to meeting the requirements. Unlike the past five to ten years ago, we were investing into assets based on to capture the business. Now we are investing in to assets based on business which we need to deliver.

Rohan Gupta So with close to almost Rs. 600 crore CAPEX in a period of almost four, five quarters which we are talking about, the revenue potential with 1.5x you are talking about roughly Rs. 450 crore to Rs. 500 crore and sitting on a CSM base right now so because if I remember our earlier concall you had mentioned that existing facilities are almost at full utilization or optimum utilization.

So would it be fair to say that with the current CAPEX of almost Rs. 600 crore over next five to six quarters our maximum revenue potential or maximum growth in the CSM business cannot be more than 15% from the current base?

Mayank Singhal Well, I would not put that as a simple linear equation. That is not the way it is. So if you were to look at 1.5 to 2x asset turn I think the numbers are somewhere there.

Rohan Gupta Sorry sir, I did not get the last part?

Rajnish Sarna So again I will respond to you Rohan, frankly we will have to do the mathematics but again there are product mix factors and this asset turn and all this which is indicated is again a very indicative kind of number. We certainly cannot do the mathematics like this in a simplified manner.

But what we are saying that given the current pipeline of the R&D, given the kind of current visibility on the existing products, the asset built up is very aggressively and intensively being followed up unlike last one, one-and-a-half years now we are and you can also imagine that three months down, four months down the line depending on again the progress on the R&D pipeline, we may again come up with some other plans on further investment.

Rohan Gupta Exactly, that was my point because I got your optimism on the current order book and the revenue visibility, but the same optimism was not conveyed when we mentioned that Rs. 300 crore sort of CAPEX, Rs. 350 crore you are looking for next year. So that is what I found there is some dis-connect probably this CAPEX number should be much higher given that if we have such a high visibility. Maybe you will be having some plans to come up again may be?

Mayank Singhal Yes, and in fact if you recall we have said that this Rs. 350 crore every year for next couple of years. It is not only one-off kind of investment.

Rohan Gupta Yes, thanks.

Moderator Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments.

Ashish Kacholia This Rs. 350 crore CAPEX that you mentioning annually per year, is this going to be at the existing facility or there is going to be some Greenfield facility in this?

Rajnish Sarna No, this is at our existing Jambusar facility which we have also expanded in terms of more land is now available with us for expansion.

Ashish Kacholia Okay the land is already in place?

Rajnish Sarna Yes.

Rajnish Sarna This Rs. 350 crore is essentially the plant and the buildings costs?

Rajnish Sarna Yes.

Moderator Thank you. The next question is from the line of Prashant Tiwari from SBICAP Securities Ltd.

Prashant Tiwari I was curious about the margins so our gross margins have come a little bit lower in this year in the nine months. So I just wanted to know if the RM cost is higher, how have we combated that in terms of lowering our other expenses and employee cost? What initiatives have you taken to combat the high RM cost?

Subhash Anand No, in fact if you see our commentary from beginning, we always maintain this kind of a guidance on our gross margin and we continue on that effort. So I will not say from last year the number has come down. This is what we planned for and that is

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what we are moving ahead. Yes, RM cost this year is slightly high and the efforts taken it was all kind of an effort it is not just one direction effort which we have taken. We have gone ahead and taken a price increases at some places wherever we had a headwind we have taken those things.

At places yes, there was an aggressive cut on our overheads, discretionary spend what we call it. That has been done but at the same time we also maintain we are not going to compromise on our growth initiatives. So we continue with our growth initiative and looking I will say avenue where we can grow. So it was a mix strategy at the end and we say we communicated our guidance this is how our gross margin and EBITDA will be and we are working on the same strategy.

Prashant Tiwari And the next question on 'Bispyribac Sodium' have you seen the market growing or is it flat right now?

Mayank Singhal The market has grown and PI has also grown up above them.

Prashant Tiwari So our market share would be more than 50% right now?

Mayank Singhal We cannot comment.

Prashant Tiwari And on Bispyribac again for the plant that we have put for manufacturing are we manufacturing the technical now?

Mayank Singhal We have always been doing that for export purpose, yes.

Prashant Tiwari But for domestic market?

Mayank Singhal Yes, eventually once we will get the registration, we will be doing that.

Prashant Tiwari Okay and also, this Rs. 350 crore CAPEX that you are putting every year is it for CSM or domestic?

Rajnish Sarna Mostly for CSM. It is primarily for CSM only.

Moderator Thank you. Ladies and Gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, Sir.

Management Thank you everybody for coming on this call and thank you for all the support and questions. And if there are any further questions that you have, you may please get in touch with Subhash. And thank you once again.

Moderator Thank you members of the management. Ladies and Gentlemen, on behalf of PI Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.