



PI Industries Limited Q3 & 9M FY '20 Earnings Conference Call February 13, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 & 9M FY '20 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on PI Industries Q3 & 9M FY '20 Earnings Conference Call. Joining us today are senior members of the management team, including Dr. Raman Ramachandran, Managing Director and CEO; Mr. Mayank Singhal, Executive Vice Chairman and Managing Director; Mr. Rajnish Sarna, Executive Director; and Mr. Subhash Anand, Chief Financial Officer. We will begin the call with key thoughts from Mr. Singhal; thereafter, we will have Mr. Subhash sharing his views on the financial performance of the Company. After the opening remarks from the management, the forum will be open for question-and-answer session.

A cautionary note. Certain statements made on the conference call today may be forward looking in nature, and a disclaimer to this effect has been included in the press release shared with you earlier.

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

Mayank Singhal: Yes. Thank you, Nishid. Thank you once again for joining us on the call today. And again, it gives me great pleasure to be addressing an audience that has been with us through our growth journey.

As you're well aware that in this quarter, we've had an unfortunate accident in our MPP in Jambusar, which resulted in fatalities. I would like to start by paying our sincere condolences to the families of the affected employees. The present update is that we are working dedicatedly towards opening this unit, and our efforts will be to resume normalization, functioning expeditiously post all regulatory approvals.



Now, I'd like to share some of the quick highlights for Q3. We have reported 20% growth in blended revenue. Our profit after tax has improved by 12%. The performance of the agri-input industry has been moderate, especially in the first half. PI has mitigated these trends to a certain extent, and we have continued to deliver on expectations.

Our wheat herbicide, Awkira, launched during this Rabi has shown a positive outcome in line with our expectations. We are focused on introducing an advanced lineup of innovative products that will complement our existing sales. Several high potential products are already in the pipeline, our intent is to develop new brands. Our distribution and crop reach stand to be strengthening, post the integration of Isagro. Our export business is scaling well, we commercialized molecules and further new molecules are getting added.

Backed by a strong order book position, we continue to invest in new assets, and we plan to commence one of the multiproduct plants in the last quarter of this fiscal and this would be followed by another multiple-product plant in the coming year. Additionally, I'm pleased to underline that the entire transaction relating to Isagro has been completed within the fiscal year as planned. Whereas the benefits of the domestic operations will be apparent more immediately, we envisage the export business to progressively scale up that full-scale utilization in the coming later part of the quarters. We are repurposing to acquire Isagro plants to meet requirements of our innovative customers, further augmenting volumes and expect to fully leverage this in FY'21. We are poised to extend our leading presence in Agchem, CSM to other verticals. Our global R&D facility and its initiatives with multiple teams of scientists engaged in discovery to stabilize processing of novel advanced chemical processes that will give to PI the grounding with new segments for growth.

In order to support our strategic growth initiatives, Board of Directors of PI Industries in its meeting held yesterday passed an enabling resolution to authorize the Company to raise an additional fund of Rs. 20 billion. This will give us the financial flexibility to comprehensively develop new capabilities, augment the already robust growth agenda with the current operations continuing to cash generations, this resolution will support our initiative to prudently invest in existing and future growth-driven by, de-risk current operation, diversify the niche of high-tech segments to sustain current growth momentum.

Our performance outlook for FY20 is maintained, and we expect to benefit from the sustained good performance of our branded lines of domestic and international exports. By the time we report our annual performance, we will be in a position to talk about the Kharif scenario and the potential benefit to the industry will arrive.

That brings me to the end of my remarks. And now I'll hand over to our CFO, Subhash Anand, to carry forward this discussion. Subhash, over to you. Thank you.

Subhash Anand:

Thanks, Mayank, and good afternoon, everyone. I will take you through the financial highlights for the quarter and nine months ended 31 December 2019. In the quarter under review, we demonstrated healthy revenue growth of 20% to Rs. 850 crore as compared to Rs. 708 crores in Q3 of FY '19, supported by 24% gain in domestic operations and 19% improvement in exports. Domestic and export

revenue during the quarter stood at Rs. 206 crores and Rs. 644 crores, respectively.

EBITDA in Q3 stood at Rs. 186 crores over Rs. 149 crores in Q3 of last year, representing a growth of 25% with steady margin of 22%. Profit after tax came in at Rs. 120 crores, a growth of 12% Y-o-Y basis. For 9-month FY '20, our revenue growth was at 23% to Rs. 2,511 crores, while EBITDA expanded by 32% to Rs. 529 crores. EBITDA margin was at 21%, in line with our stated guidance. Profit after tax stood at Rs. 344 crores, higher by 22% Y-o-Y basis. Effective tax rate was at 27% due to change in SEZ contributions to the overall business mix.

Healthy underlying trend in our performance resulted in robust operating cash generation and enhanced balance sheet. During the year, Company has deployed surplus cash in acquisition of Isagro Asia and capacity expansion at Jambusar. Total debt net of cash on consolidated basis as of 31 December, 2019 stood at Rs. 252 crores. The road ahead appears encouraging, and we are confident of maintaining the growth momentum, with 20% annual growth for next couple of years.

That concludes my initial remarks. I will now request the moderator to open the forum for Q&A. Thank you.

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

Aditya Jhawar: My first question is on the QIP. If you can throw some light on what are the new target industries that we are targeting and any new chemistry clusters we plan to add or is there a ramp-up of existing molecules as well as some backward integration. So, if you can throw a little bit more color on the proposed QIP?

Rajnish Sarna: Yes. the objective of this QIP is mainly into 3 areas that we are evaluating. One is, of course, our current organic business growth and opportunities there to further expand and scale up. The second area is scale-up of newer and niche technologies that we have been working for last couple of years. And the third area would be diversifying into adjacent verticals, which could be CDMOs or CSMs in adjacent verticals, like pharma or other specialty chemicals, or other applications areas, high-tech application areas like nutraceuticals and imaging chemicals and all.

Aditya Jhawar: Okay. So Sarnaji, do we have some line of sight of any of the businesses in the new vertical? Or is it preparation we are doing for bidding new business in these verticals?

Rajnish Sarna: Yes. we are currently evaluating certain options, but as of today, we have not yet finalized or kind of clearly identified that this is the target or the area that we have kind of finalized in.

Aditya Jhawar: And what would be the time line of QIP in the execution of this CAPEX?

Rajnish Sarna: QIP, we are targeting anytime in the next 1-1.5 month.

Aditya Jhawar: Okay. And this CAPEX of about Rs. 2,000 crore, over what period will it be executed?



- Rajnish Sarna:** So, it's not certain as of today net CAPEX will be Rs. 2,000 crore or what. But yes, we have got an enabling resolution passed. And as I said earlier that we will be evaluating several options in these 3 areas, and then we will be deciding.
- Subhash Anand:** Yes, Infact, Aditya, our intent is to build a war chest. There are opportunities available which we will evaluate and whenever we find the right opportunity, that time, deployment of this cash will happen. But yes, we are making ourselves ready, so whenever opportunity comes, we should be able to tap that.
- Aditya Jhawar:** Okay. That's quite helpful. Secondly, on the raw material side, considering the current situation in China, do you see some kind of production disruption in Q4? And what percentage of our direct and indirect material is sourced from China? And any current interaction with suppliers on the ground, are you sensing a situation easing? If you can throw some light on this.
- Mayank Singhal:** If you look at Q4, we're well covered as such for the Q4. So, we don't see any challenges coming from that. The Company is putting the strategy and resources. And as you know from the past, over the last years, looking at the challenges that have been forced in the Chinese geography, the Company has been de-risking it's supply chain. So, we don't see any strategic challenge for the Company as we have the ability and the opportunity to work around that side.
- Aditya Jhawar:** Okay. My final question is on gross margin. In your commentary, you have indicated there was some softness in raw material prices, but the gross margin was flat on a Y-o-Y basis. And the business mix is also kind of flattish on a Y-o-Y basis. So, were there certain factors which negated the impact of raw material price benefit?
- Mayank Singhal:** As you know that we don't have a model of a benefit on the RM side. As we've said in the past, most of our businesses has been on a basis of pass-throughs. That will reduce that risk. So, this doesn't directly reflect into the number.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from HSBC.
- Saurabh Jain:** Again, delving more onto the QIP side? I mean I know that it's still work in progress, but do you have something in mind out of this Rs. 2,000 crores? How much of allocation you believe or see, going towards your own organic growth or scale-up of the technology that you are developing? And how much would be probably allocated towards adding up new verticals through acquisitions or other measures?
- Rajnish Sarna:** Not really. We have not reached to a point as of today to clearly allocate that how much of this is going into other verticals and how much in the existing organic area. And these are the things that we are currently evaluating.
- Mayank Singhal:** As you would appreciate that we have taken this call with the maturity of understanding which way you want to go ahead. Clearly, some of these plans will depend on certain evaluation of the outcome that we are working. And obviously, on the basis of the opportunity and speed at which the markets would be able to digest them, only we would go out and invest and take this call in that opportune moment. But as I can say, at a limit level, there are enough things in the pot which are boiling, and now we need to see how we best fit it out.

Saurabh Jain: Yes, because why I'm asking is that Board has passed the resolution, and you have your reserves in place. But you're also mentioning that you are definitely going to raise this money of Rs. 2,000-odd crore over the next 1.5 months, so I thought you must be having something already in mind or other plans.

Mayank Singhal: As I said that many things are boiling in the pot, it is not something we would like to put out, till we are very certain which way we are going.

Saurabh Jain: Sure. No problem.

Rajnish Sarna: I clarified earlier that this amount up to Rs. 2,000 crores, is an enabling provision. It's not that we have decided on this amount or this site as of today.

Saurabh Jain: Okay. Great. Fair point. And secondly, well, you're well covered for a Q4 point of view, but what is your sense on how the raw materials that you source from China, how the pricing is already behaving in that country? And probably, there is a backlog, a couple of months of more shutdown. Then can that impact your supplies for Q1 or for coming quarters?

Rajnish Sarna: Raw material supplies from China is not a very significant portion of our total raw material. It is actually single digit.

Subhash Anand: Yes. Our revenue dependence on China is in single digits.

Rajnish Sarna: Now over the last several years, we have been able to build alternative suppliers even for the raw materials that we are sourcing from China. So as explained earlier, we are right now fully covered until April, May for most of these raw materials. But at the same time, we are keeping a close watch. And yes, of course, if this problem continues for several months, then there could be some challenge, but we are well aware of these implications, and we are also regularly working on these alternatives as well.

Saurabh Jain: Okay. And this is sourcing mainly for your CSM business, right? Not what you said in the domestic?

Rajnish Sarna: Yes, mostly for CSM business.

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

Vishnu Kumar: Sir, if you could just update us on the new plants that are likely to start up, which is supposed to start last quarter? if you could just give guidance on that.

Rajnish Sarna: One new multiproduct plant is starting in this quarter, most probably in this month and one more multiproduct plant is expected to get commissioned sometime in quarter one, end of quarter one next financial year.

Vishnu Kumar: Got it, sir. And for the FY '21, two plants were supposed to be slated to be starting, right? For next year, third quarter and fourth quarter.

Subhash Anand: No. In fact, the way we communicated earlier also, yes, there will be one more plant, which will be commissioning next year, but the timing wise it could be Q3 or Q4, but we do expect one more plant coming up next year.



Mayank Singhal: But we have one coming up this Q4, second coming up in Q2 of next year and one more may come into Q4 of this year or the next quarter also, that's the plan for now, to be clear.

Vishnu Kumar: Got it, sir. And just wanted to understand, typically your third and fourth quarter revenues, I mean your second half's heavy, your revenues are, and I wanted to understand what are your customers, especially in the agrochemical side in U.S., Europe, telling? Is there any delay that we are seeing or are the schedules on track? Or just wanted to get some sense on the agrochemical market in those places.

Rajnish Sarna: No. We are not seeing any change in this pattern. Depending on the geographies these products are going, the demand pattern is like this, that the second half is a little heavy than the first half. But we are not getting any feedback of any change in the demand or delays in the demand as of today.

Vishnu Kumar: Got it, sir. And just on the CAPEX numbers for this year and FY '21?

Subhash Anand: We have spent till December, Rs. 550 crores.

Vishnu Kumar: For full year, how much will we be doing, sir?

Subhash Anand: Our full year CAPEX will be around Rs. 600 crores.

Vishnu Kumar: This is including Isagro?

Subhash Anand: No, this is without Isagro.

Vishnu Kumar: Right. For next year, if you could just give an indicator number?

Subhash Anand: Okay. We are actually at this point of time working on the next year numbers. But our estimate this point of time will be around Rs. 250 crores to Rs. 300 crores.

Moderator: Thank you. The next question is from the line of Aashish Uppanlawar from InvesQ Investment Advisors.

Aashish Uppanlawar: Sir, just one question. On the fund raise that you talked about, debt position is pretty much under control. So apart from whatever you might raise from the QIP, would you be taking up your debt equity to a higher level because then the capital needed will be higher, basically, I mean, put together equity and debt?

Rajnish Sarna: Not really, but a lot will also depend on the final target that we decide. . But as of today, we have no such objective or idea of raising the debt.

Aashish Uppanlawar: Okay. But sir, I mean, just from common sense perspective, why would one raise equity when you can raise a lot of debt considering the current debt equity position? I mean just trying to understand the process behind that.

Rajnish Sarna: Well, good question. The idea is that, as I had explained earlier, that we will be diversifying, we'll be also investing in scaling up of niche and new technologies, and we believe internally that it is better to invest through equity route in these new

models. And then, of course, at an appropriate time, we can also take a call on debt as well.

Aashish Uppanlawar: Okay. Sir, just one more thing, on the demand side, how is the traction? I mean the earlier participant also asked you on the demand. But, are you seeing increased traction on the inquiries or orders? Or is it similar to what you have been witnessing for the last one year?

Rajnish Sarna: No. There is certainly an increase in demand of existing products as well as there is a flow of new inquiries, a significant increase in new inquiries. So, the pipeline in our R&D is only increasing. A number of new projects that we are evaluating in our R&D pipeline are constantly increasing.

Aashish Uppanlawar: So, would you attribute that to China, is that one of the reasons why you would be having much more inquiries coming in?

Rajnish Sarna: Yes, this is certainly one of the reasons.

Subhash Anand: Not the only reason, it is one of the reasons, definitely, China contributes in that.

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

Ritesh Gupta: Sir, just on the new chemistry thing that you talked about, so you are going to put up capacities which are dedicated there? Is it that you probably may look at building a catalog of products also there? I mean is it the intention? I'm just asking that because you mentioned it separately, and ideally, it's the same business under the CSM umbrella that you have. So, you mentioned both of them separately that organic CAPEX and then the investments in the chemistry side. So just wanted to check, are you also looking at catalog products in some new chemistry?

Rajnish Sarna: The only difference is that in our CSM area, we work on technologies shared by our customers, okay, on the customer manufacturing business. When we say that we'll be scaling up our own technologies and all, then these are the technologies that we have been working. I mean these are the technologies that we are developing, and then we'll be scaling up with these technologies that can be used in different verticals, not limited to AgChem.

Ritesh Gupta: Got it, sir. And just on the CAPEX bit, how should we look at the Isagro capacity that you have? can you give us some sort of equivalence in terms of what kind of CAPEX it would have translated into. What kind of revenue potential that the plant can translate into, you had to build it organically by yourself? And when do you expect this plant to get fully utilized? I mean I would assume that this plant would be utilized in the same way that any of your Jambusar or a Panoli plant would get utilized for CSM business. So if you could just throw light on, like, what is the future potential of this particular plant, and until what time can this get commissioned and hopefully utilized?

Rajnish Sarna: Yes, we are working on this. As, Subhash also explained earlier, we are working on aligning these capacities. There is significant opportunity of increasing the capacity utilization, that was one of the key drivers for us for this acquisition. So right now, we are aligning these capacities, available capacities with our export products, and we'll be gradually fitting these products in available capacities, repurposing these



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capacities. So maybe in next financial year, next 6 to 9 months, we'll be able to kind of fully align these capacities with our demand pipeline and the orders that we have, and we'll be trying to maximize the capacity in next financial year.

Ritesh Gupta: Got it, sir. So, basically, you're doing 3, let's say, this quarter, one plant comes then another one next quarter and then another one probably FY '21 and despite that, you believe that this plant would equally be useful in doing a capacity expansion, and you are looking at the QIP to further expand your capacities organically. So if I understand correctly, you're seeing a very different shift in demand momentum versus what you have seen, let's say, in the last 3 to 5 years. Is it the right understanding to have?

Rajnish Sarna: Partly, yes. So there is certainly demand upsurge, no doubt about it. But yes, we can't add this whole of QIP towards there. But as I explained, QIP will have multiple objectives

Ritesh Gupta: Many parts, but at least one of this part would be organic expansion.

Rajnish Sarna: Yes. Hope you are right.

Subhash Anand: Yes, actually, as we earlier said, our AgChem business continue to show promise, and we do see growth continue for the next couple of years. So that's what it is, what we are doing is just to sustain the statement what we have made earlier.

Ritesh Gupta: Got it. And just could it be in 2 parts? Or is it like in one stretch, you're looking to raise that entire Rs. 20 billion?

Subhash Anand: It's up to Rs. 2000 crore, we are yet to take over what size, when, so let's wait for the appropriate time.

Ritesh Gupta: Sure. Sir, just the last question. Nominee Gold and Osheen, so, like, Nominee Gold has seen a meaningful price erosion in the last few years. When does Osheen get generic? And how do you expect, let's say, the domestic growth trajectory to pan out, let's say, if Osheen also goes through some bit of price erosion?

Mayank Singhal: It's already generic. So, I'm not very sure what you meant by when it will go generic. It's already a generic molecule, Osheen is already a generic molecule in the global scenario.

Ritesh Gupta: No. I mean in India, I mean, let's say, if 9(4) comes in or dinotefuran effectively gets more entrants, when does that happen? Or that has already happened? Pardon me, I thought that I think you and probably another player are only there in dinotefuran in India as of now. So is there a 9(4) coming into Osheen at any point in time soon? Or that has already happened?

Dr. Raman Ramachandran: So, let me answer that question. So we don't expect anything to happen. Of course, as all of you are aware, these are always under pressure. But we do believe that there are opportunities for continued growth by expanding into newer crops. And also as newer molecules are coming in, we are looking at how to reposition it through combinations and also through proper pricing strategies.



Mayank Singhal: And further, I think, we hold this close to our chest as you see we have a past of Nominee, so we work the same way. So we don't see that as an uphill task. And frankly, when does the next product, who will come, that's not in our hands. That's the regulatory thing and Board to take that call.

Moderator: Thank you. The next question is from the line of Deepak Kolhe from B&K Securities.

Deepak Kolhe: Sir, what is the order book proposition currently?

Subhash Anand: The order book, currently, is at the same level, \$ 1.4 billion.

Deepak Kolhe: Okay. And sir, recently, there was a talk about Pesticide Management Bill, so what is your view on that?

Mayank Singhal: Yes, the Pesticide Management Bill, it has only happened yesterday. So before we express a view, we would like to fully understand what has been given in because that's something, that's not very clear what has gone in. It's a bit too early to comment on that. And it would also take some time before it has any impact on the industry, positive or negative, as following these, the rules will have to be enacted, and that's when the real impact will start. And we believe that's going to take a few quarters at least, if not more.

Deepak Kolhe: Okay. And sir, how Awkira is doing in India? So are you also expanding it into different crops?

Mayank Singhal: So Awkira, we have launched in wheat this Rabi season, and our objective was to ensure that every user who uses it has a good experience, and we are able to follow that

Moderator: Thank you. We'll move on to our next question that is from the line of Amar Mourya from Alf Accurate Advisors.

Amar Mourya: Sir, in the Q4, the multipurpose plant which is going to come, that is one is in Q4 and one is in Q1 and probably one is going to come in Q3. So what would be the CAPEX for these plants?

Rajnish Sarna: It's ranging anywhere between Rs. 175 crore to Rs. 200 crore kind of range.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global.

Varshit Shah: Sir, I wanted to drill down a bit more on the QIP side. So I think there will be multiple production development in R&D pipeline and I'm sure, the inorganic, I mean, the expansion in the non-agrochemical segments would be an outcome of our capabilities which have been developed in the R&D team. So just wanted to double check that. So, the potential options which you are looking in non-agrochemical CSM, so, do we have the technology already built in our R&D pipeline? Or that will also be acquired with the acquisition itself?

Rajnish Sarna: Of course, that would also be acquired with the target. So obviously, there will be certain synergies and leveraging opportunities that we will see with our existing

capabilities, but we would certainly look for some interesting technologies, interesting market, customer segment, everything.

- Moderator:** Thank you. The next question is from the line of Rishabh Bothra from ShareKhan.
- Rishabh Bothra:** Sir, I just wanted to understand the growth prospect or expansion plan slightly better. We have the Isagro plant as well. So the expansion or the plants which are coming up in Q4, Q1/Q2 and probably Q3/Q4, these are excluding the Isagro plant ramp-up or these are including that?
- Subhash Anand:** These are excluding. Isagro ramp-up, those are not new plants. Those are refabrication, so that will continue. This new plant what we are talking is exclusive.
- Rishabh Bothra:** Okay. So these are there. And, further expansion will be there post the QIP? You will announce further expansion plans?
- Mayank Singhal:** We will look at the strategy as we mentioned earlier.
- Rishabh Bothra:** Okay. So the demand buoyancy remains quite robust and hence, we are doing such plans. So what would be the asset turnover from these new capacities which we are building in?
- Subhash Anand:** So in fact, we have earlier communicated, and we maintain that our asset turnover, what we are looking will be around 1.5x.
- Rishabh Bothra:** Okay. At full capacity utilization? .
- Subhash Anand:** It's a gradual ramp-up. But once they reach to that level, it will be 1.5x.
- Rishabh Bothra:** So gradual ramp-up, we can reach around 18 months or so? Or it will take lesser time?
- Rajnish Sarna:** Yes, it could be anywhere between 12 to 18 months.
- Rishabh Bothra:** And is there any margin differential what we are currently fetching and what these new plants will derive in niche products?
- Rajnish Sarna:** No. We expect to maintain our existing margin profile.
- Moderator:** Thank you. The next question is from the line of Pratik Tholiya from Elara Capital.
- Pratik Tholiya:** Sir just clarification on QIP, based on the enabling resolution, you have taken this up for Rs. 2,000 crore, but you may or may not go for that. But does this also mean that you have several tranches of QIPs that you will go for? Or it's basically just one QIP of fixed amount and that will be about it?
- Rajnish Sarna:** No. There are multiple opportunities that we are evaluating, not one.
- Pratik Tholiya:** No. In terms of fundraising, that will be just one QIP through which you'll raise the entire amount? Or we'll have a few more rounds of QIP?

Rajnish Sarna: Yes. So this is what I said that we are currently in the evaluation phase, and we will decide once all these options, targets and timelines, once everything, is finalized.

Pratik Tholiya: Okay. And sir, this enabling resolution that has been given, that also has a deadline, as in it is valid for only 1 year or it is extendable?

Rajnish Sarna: Well, this is generally for 1 year.

Subhash Anand: Basically, we need to go to shareholders after this. So we will be going for shareholders' approval of this resolution. And that approval, if I'm right, is valid for 6 months.

Moderator: Thank you. We will move on to the next question that is from the line of Sumant Kumar from Motilal Oswal Securities.

Sumant Kumar: So with the commercialization of 3 molecules in CSM, what is the total number of molecules we have as on date?

Rajnish Sarna: We have close to, I think, 21, 22 molecules.

Sumant Kumar: Okay. Domestic growth is 24%. So what is the volume growth in domestic market?

Subhash Anand: This is mainly coming from volume growth.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities.

Rohit Nagraj: Sir, due to Jambusar unfortunate incident, will there be any impact on revenues in Q4? And will there be any impact on incremental orders from the innovators or so?

Rajnish Sarna: Yes. So since this plant is currently shut for needful repairs and necessary approvals and all, so there will certainly be impact on revenues of Q4 to the tune of, I think, Rs. 40 crore to Rs. 50 crore, but this has no impact as far as orders are concerned. Mid- to long-term business, there's no impact.

Rohit Nagraj: Okay. And just another question on the QIP. So you said part of those funds will be used for organic business growth. So do we have the necessary environmental approvals for the same if we were to deploy that money?

Rajnish Sarna: Yes, certainly. I mean we have necessary environment approvals, both EC and GPCB approvals for a basket of products that we are currently doing and currently evaluating in R&D. So depending on how things progress, we will be able to invest in certain products where we already have approvals.

Rohit Nagraj: Yes. That's helpful. Sir just last clarification on the R&D activities. So if you could just give us a broader understanding of what is the deal size? What are the areas that we are looking? And what is the pipeline for R&D?

Rajnish Sarna: Yes. So currently, we have more than 300, 350-plus scientists that are working in the R&D area. And mainly in R&D, so as I said, there are 2 broad categories, one is the CSM area where we are working with our customers on their technologies.



This is basically a process research kind of area. And the other set of scientists are working on our own technologies, niche technologies, which we are developing both in chemistry area as well as in process area, new technologies and new engineering technologies also that we are working on. So these are broad categories and the kind of resources that currently we are working.

Moderator: Thank you. The next question is from the line of Vihang Subramaniam from Samsung Asset Management.

Vihang Subramaniam: Sir, my question is mainly on the domestic business. I think last few quarters, your commentary had been pretty muted because of the whole industry position as such. So just wanted to get a sense on the numbers that we are seeing this quarter, is this a function of an underlying change in the whole industry? Or do you think this is just some sort of a temporary relief and that the industry continues to still be in pain?

Rajnish Sarna: Well, industry is, I would say, in general, it still remains in difficult situation. Yes, this particular quarter, as I explained earlier, is looking better because the overall Rabi scenario is positive. Kharif was not at all good. So there was also some impact of that. Rabi, because of water reservoir situation, acreages are looking better. So all that is looking positive. But there are some challenges on the produce side, the pricing side and all. So it's a mix bag situation, to summarize it.

Vihang Subramaniam: Okay. So basically, you mean that going ahead, like the macro things, like water levels and acreages are good, but you are still seeing stress in terms of working capital and pricing pressure from competition, etc. Is that like the right understanding?

Rajnish Sarna: Yes. That's right.

Vihang Subramaniam: Sir, is there anything in this pesticide bill, which was passed a couple of days back, is there anything which you think, we should know about for our business, like any impact?

Rajnish Sarna: No. So as we discussed with your earlier participant that it was announced only yesterday, so we'll now kind of study this, and a lot of rules, regulations are yet to be notified. So we will evaluate, and then we'll be in a position to assess what kind of impact it may have on the industry.

Vihang Subramaniam: Right. Sir, basically, but within our product portfolio, given that we operate into more like patented, proprietary products, do you think there would be some products, which will be having, very high margin, and some would be very low margins. Is that the case?

Subhash Anand: We don't talk specifically on product line, but we are yet to understand that this bill will have an impact and how this will impact us. Too early to say what impact this will have on our portfolio. So let's wait for that. Once we understand, I think we'll be in the right position to comment.

Moderator: Thank you. The next question is from the line of Madhav Marda Fidelity Investments.



- Madhav Marda:** Just one question from my side. Any potential CAPEX or M&A that we are targeting? Is there a benchmark ROIC or benchmark IRR that we have in mind that we will consider before we deploy the capital?
- Subhash Anand:** In fact, we always have some threshold. And when we evaluate things, we always evaluate those things based on certain threshold. So whatever target we explore will go through those rigorous check and shortlisting.
- Rajnish Sarna:** And on top of it, one key objective always is that these investments should be EPS accretive for the organization. There should be arbitrage benefit to the Company and its valuation.
- Subhash Anand:** Yes. We do consider EPS accretive. ROCE, ROE, these are the important factors which becomes part and parcel of all evaluations.
- Madhav Marda:** Okay. Just a follow up. I don't know if it's too early to ask that, but will any of the potential targets be immediately EPS accretive or over a period of time? How should we think about it? Because if you enter into a niche new space, it could take some time to ramp up the business, I would imagine.
- Rajnish Sarna:** It is, I think, a little too early to head into this discussion. But yes, I mean, we are sensitive to these evaluations.
- Moderator:** Thank you. The next question is from the line of Saurabh Kapadia from Asian Markets Securities.
- Saurabh Kapadia:** Sir, your guidance of 20% growth over the next 2 years, so, that includes the Isagro acquisition or excluding that acquisition?
- Subhash Anand:** No. That excludes Isagro at this point of time.
- Saurabh Kapadia:** The reorganization of Isagro business, so, what was the rationale behind doing this thing?
- Rajnish Sarna:** The rationale is that we want to align the manufacturing piece of this business with our own manufacturing capacities, so that in our export business, we can fully utilize and integrate them with our product line and all. And that's the reason that this manufacturing piece will get matched with PI, so, that we can align that with our export business. The domestic, we have certain product portfolio and certain market segments where we currently focus. And Isagro's portfolio and the market segments where they are currently focusing is complementing, and therefore, we would want to keep it separate, so, that we can focus on both these areas. And by merging, it shouldn't get diluted, the focus and the areas that Isagro is currently focusing. So that's the reason that we would want to keep that separate from PI. So that's the rationale that we are keeping the distribution business separate. And we are merging, eventually merging the manufacturing assets into PI.
- Saurabh Kapadia:** Okay. And sir, last thing on the income tax part. So this quarter also, we had about 29% tax rate, and in last call, we mentioned that about 24% tax rate guidance for FY '20. So where do we see the tax rate for FY '20? And like, are we planning to shift to the new tax rate by next year?

- Subhash Anand:** For this year, we do expect our tax rate to be 25% to 26%, effective tax rate. Next year, we will evaluate and see what is more beneficial for us, and we'll adopt as per that.
- Saurabh Kapadia:** Okay. And sir, last thing, the new plants which are coming up, so are we going to take that 15% tax rate benefit on that plant? Is that possible for us? Or it should be a completely new plant ?
- Subhash Anand:** That's not possible for us. That has to be accepted independent entity and everything should be completely independent. So that's not available for us. And our new plants are in SEZ, so they are, in any case, with the 0 tax rate.
- Moderator:** Thank you. The next question is from the line of the Deepak Chitroda from PhillipCapital.
- Deepak Chitroda:** So sir, my question is basically any guidance for the next year in terms of the growth? And basically, in the domestic side, if I talk about, so what are basically, we are planning for the product launches in India in the domestic side?
- Subhash Anand:** For the next year, so, we'll wait to take a call and (that's the right time.
- Deepak Chitroda:** Okay. And any ideas in terms of the product launches? any target for that?
- Subhash Anand:** We do have, in fact, every year, we are launching 2 to 3 new products. So we go with the similar numbers what we are doing in the past also.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss.
- Rohan Gupta:** Sir, on this strategy of the Company especially on coming from the QIP side, so with the current run rate of almost Rs. 2,500 crore CSM business, I think that even without any leveraging, we are going to see another PI Industries size Company getting created in the next 3 years to 4 years with a Rs. 2,000 crore of investment, roughly Rs. 3,000 crore to Rs. 3,500 crore revenues. We haven't seen this kind of aggression in the industry, specialty chemical industry. Self-sufficient, was in the cash flow generation and reinvesting in that. But in last 1 year, we have seen multiple Companies are coming with the aggressive investment and even through QIP route also. Do you see, have been to understand that there may be opportunities, but do you see that, are there risks involved in these businesses, large CAPEX, overcapacities also, taking a bet on the China and their strategy? And is there any risk involved in terms of over investment, in this sector which may unfold in next 3 years to 5 years?
- Rajnish Sarna:** Good. Thanks, Rohan, for asking this question. Very relevant question. But as you know, PI has been very conservative in planning, investing, targeting all our investments over the last several years So, that is the same approach that we have for today. Yes, there are opportunities, but we always remain very cautious in the areas that we are investing and many of these areas, as I explained earlier, that rather than over investment in a particular area, we are now gradually diversifying our bet on technologies and on verticals that we are currently working. That is one. Secondly, we have always maintained that we are investing in specialty areas and not the generic or volume or bulk area where you will always have risk that if the market demand goes, , then yes, you end up with excessive investment and all.



Whether Chinese situation tomorrow improves, what would be the impact on those bulk chemicals and generic chemicals. And also, that is not the area that we are, frankly, investing or rather evaluating also. And in nutshell, we'll always remain cautious before making any such investments.

Rohan Gupta: So with this kind of investment, we see that over the next 3 to 4 years, the Company's top line potentially is doubling and without any compromising on margins and ROC, right?

Rajnish Sarna: Yes, exactly.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund.

Resham Jain: Sir, just one question. This QIP money which you are raising, just to clarify, on the acquisition side, are we thinking of acquiring anything from the global platform, in the sense, outside India acquisition kind of thing?

Rajnish Sarna: Yes. So we'll be open, I mean, we'll be open to look at those opportunities as well. So all this is not India-centric. But we are looking at opportunities, options which are in India and outside India. And we are open to look at that as well.

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

Prashant Biyani: Sir, with Isagro now coming in, do you expect Q4 and FY '21 margins to take some kind of hit because this is a low margin business or we can absorb the cost pressure?

Subhash Anand: We will, in fact, our intent is to maintain margin profile, but we'll work out what overall numbers look like and maybe when we come for guidance for next year, we'll be able to share with you a better perspective.

Prashant Biyani: Okay. And regarding the potential acquisition that we may be zeroing in on, are these referrals from the client side or this we have been pursuing on our own? If some indication can be given on...

Rajnish Sarna: No. We are pursuing on our own. There is no referral that we are currently working.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Rajnish Sarna: Thank you, gentlemen, for your participation and continued interest in PI's growth story. We will expect your continued interest and support. Thank you very much.

Subhash Anand: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of PI Industries, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.



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