PI Industries Limited

Q4 & FY22 Earnings Conference Call
May 18, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 & FY22 earnings conference call of PI Industries Limited. As a reminder, all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an 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.

Nishid Solanki: Good afternoon, everyone, and thank you for joining us on PI Industries Q4 & FY22 earnings conference call. Today we are joined by senior members of the management team, including Mr. Mayank Singhal, Executive Vice Chairman and Managing Director; Mr. Rajnish Sarna, Joint Managing Director; Mr. Manikantan, Chief Financial Officer; Mr. Prashant Hegde, CEO, Domestic Business; and Dr. Atul Gupta, CEO - CSM Exports. We will begin the call with key perspectives from Mr. Singhal. Thereafter, we will have Mr. Manikantan, sharing his views on the financial performance of the company. After that, the forum will be open for question-and-answer session.

Before we begin, I would like to underline that certain statements made on the conference call today maybe forward-looking in nature and the disclaimer to this effect has been included in the investor presentation shared with you earlier and also available on Stock Exchange website.

I would now like to invest Mr. Singhal to please share his perspectives with you.

Mayank Singhal: Good afternoon, everybody, and thank you for your participation in today's call. Last year, we began with the new fiscal under the cloud of COVID second wave faced by significant operational challenges at very high infection rates in several months followed by unprecedented supply chain challenges coming from China, and finally, Russia and Ukraine conflict further adding to the chaos and resulting in rising input cost trends apart from supply chain disruptions.

While with this backdrop of the overall business operation environment in 2021, I'm very pleased to report that PI team has done an excellent job and continuing its growth momentum on revenue and EBITDA during the Q4 and also for the year FY22. The expansion came in despite the challenges and high base of last year, both in domestic as well as exports, rising trends in input costs. I thank all the PI team members for the winning spirit and all our business partners for the continued support and trust in our relationship.

Now, in the CSM export space, traction in new inquiries continue with a significant number of inquiries coming from non-agchem space of electronics and pharma and other areas. During the last fiscal year, we acquired 8 new customers. There is a rich pipeline of 40-plus products at different stages or scale up, of which more than 20% are from non-agchem products. We are targeting to commercialize 6 to 7 molecules in the current fiscal 23. We have also stepped up our capacities during 22 with two multiproduct plants fully commissioned including chemistry building blocks for Mono Methyl Hydrazine, commissioned in various technology initiatives to improve capacity throughput of existing plants.

Our domestic performance for the quarter was driven by favorable agro climatic conditions during the Rabi season supported by price hikes effected by key products. We undertook successful launch of one of the new insecticides for rice and three speciality fungicides focused on horticulture and rice. We have also successfully launched a number of new brands in the horticulture segment under Jivagro and we are excited by the whole slew of products recently launched and are going to be launched shortly. Distruptor, an innovative insecticide launched for rice, Distruptor has a unique mode of action to control brown planthopper affecting the rice crop.

We are launching two patented insecticide and another broad-spectrum insecticide for the crops of chilli, cold crops etc. Provide, herbicide of a cotton to be launched this quarter along with dim-out will have as one of the most comprehensive crop protection solutions for cotton with an estimate of 120 lakh hectares under cultivation in India. An innovative nematocyst, Sectin, a broad spectrum fungicide both targeted horticulture segments have been launched in the current fiscal year. They're witnessing high swing in the upcoming kharif with acreage across cereals and oilseed and mark as an increase.

Given a normal forecast to the monsoon, the trend is bound to pick up as we reach the end of the summer. Although reservoir levels are above the annual average, for this time of the year we are witnessing low pre-monsoon showers in northern and central India, which combined with the usual heat wave could influence cultivation. As mentioned during our previous investor call, we have refreshed the PI compass to set a clear direction and mission for future growth with the purpose of reimagining a healthier planet, our vision to lead with science, technology and human ingenuity to create transformative solutions in the life sciences.

We're now cascading purpose vision with a spiky capabilities and value proposition across different levels of the organization to drive to a bigger sustainable growth in the near future. Given the combined thrust from the lifting of the pandemic, induced lockdowns globally and mass injection liquidity by the central banks to post intense rates of pandemic agri commodity prices globally being firm besides the Make in India program and continued supply chain disruptions of channel combined with government focused efforts to maximize exports of value-added products to ensure profitable growth of the chemicals sector in the years to come.

The domestic segment also enjoys solid tailwinds, record prices and export led growth, encouraging farmers to adopt modern crop protection techniques for maximized productivity. Our business outlook remains robust and we are confident of delivering 18% to 20% growth plus continued improvements in margins. For the current fiscal, we see further risk of raw materials increase in inflammatory trend, although it is a target to mitigate the risk by pricing optimizing product mix as well as driving operational efficiencies. Diversification into adjacencies to inorganic volume remain the top of the agenda apart from technology scale up, we are evaluating various M&A opportunities both in India or outside India to zero down on a few, to meet our objective of creating a sustainable different value proposition.

Last but not least, we're proud of our industry and customer accolades. As announced earlier, during 22, PI emerged as one of the top quartile in the very first S&P global sustainability assessments with 82 percentile industry ranking. We also won the heritage company of India at FICCI at 75 Chemical and Petrochemical Industry Award amongst other recognitions.

With that, I would like to thank all the stakeholders for their contribution and I would now like to hand it over to our CFO, Mr. Manikantan to take and share the highlights of our financial performances.

Manikantan Viswanathan: Thank you, Mr. Singhal. Good afternoon, everyone, and thank you for joining us on the call today. As we summarizing the financial highlights of the company for the Q4 & FY22 ended March 31, 2022, please note that all comparison is on year-on-year basis and refer to the consolidated performance.

During Q4 FY22, we reported a revenue of Rs.13,952 million, a growth of 17% over the same period last year. This was driven by solid growth in export revenues by 11% to Rs.11,142 million and 47% gains in domestic revenue to Rs.2,810 million. I'd like to highlight here that we have grown on a high base of last year, where the domestic revenues grew by 11% and export revenues increased by 47% in Q4 FY21 over the previous year Y-o-Y. Revenue growth of 17% was driven by price increase of 7% and balance from volume growth. The trend of elevated input costs continued during this quarter, although the effected partial path through by increasing product prices, both in exports as well as in domestic.

Our gross margin increased by 196 basis points in Q4 FY22 to 44%, partially due to cost pass-through and favorable product mix, which negated the impact of rising input costs. EBITDA increased by 34% to record Rs.3,056 million for the quarter. Cash generated from operations before tax during Q4 FY22 of Rs.2,640 million. Profit after tax improved by 14% to Rs. 2,044 million in line with planned effective tax rate.

Let me also cover the annual performance for FY22. Revenue was Rs. 52,995 million, a growth of 16% over FY21. This was driven by solid growth in export revenues by 20% to Rs.39,902 million and 4% gain in domestic revenues to Rs.13,093 million. In domestic segment, we have grown on a higher base of last year, where the domestic revenues grew by 39% over the previous year on Y-o-Y basis, including the impact of Isagro acquisition. Revenue growth of 16% was driven by price increase of 3% approximately and balance from volume growth.

Operating expenses, increase of 24% is mainly attributable to a sharp increase in fuel prices, leading to increase in utility costs, onetime expenses pertaining to strategic initiatives and COVID-related expenses. EBITDA increased by 13% to Rs. 11,460 million for the year. However, there was a moderation in EBITDA margin, which reduced by 59 basis points on year-on-year basis. Profit after tax improved by 14% to Rs. 8,438 million in line with planned effective tax rate.

Our balance sheet further strengthened during the quarter. Net worth increased by Rs. 7,780 million to Rs. 61,204. Net sales to fixed assets ratio improved from 2.06 from 1.89, while total CAPEX for the year stood at Rs.3,204 million. For the forth coming year, we estimate a CAPEX of around Rs.5,000 million. Inventory level was maintained at similar level as last quarter to avoid any supply chain disruption and meet customer supply schedules and continued operations.

Trade receivables relatively flat at 69 days as on March 31, 22 vis-a-vis 68 days as on March 31, 21. Payable in terms of days of sales has also remained flat at 64 days vis-a-vis 63 days as on March 31, 21. The company maintained its strong liquidity position with surplus cash net of borrowings or ECB borrowings of Rs. 21,642 million, including QIP proceeds. That concludes my opening commentary. I will now request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session.

The first question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Hi, good evening. Few questions from my side. In your presentation, you've mentioned that you've developed the intermediate at a pilot plant through a continuous flow chemistry process. Can you give us some sense in terms of what are the benefits of this technology in terms of time, in terms of cost versus the traditional technology used to manufacture this intermediate, and how probable is it that you'll be able to scale it at a factory level? That's number one. And how pervasive would it be? How big could this be, because my sense is you would have specified equipment for this? The second is the net sales to fixed asset ratio has moved up quite meaningfully in this quarter. How is there a benchmark that you're looking at, how should we see this going forward? Thank you. That's it from my side.

Mayank Singhal: So I think let me take the question on the flow technology. Obviously, there's nothing that is that new to the global industry. It is something which is still under works and has been in works in certain other areas. Obviously, the applications in certain specific areas are new, which is what we are evaluating. Clearly, there is a good enough strong enough case to create some value benefits, which we see. Basis of which the experimental data convinces us to look at commercialization of the same and bring that value added proposition. I think that's the best I would like to mention for now given the technology's uniqueness and our ability to use and apply from IP and intellectual standpoint. So, obviously, the company is looking at from there. Scalability will obviously have a future and once we learn more, we'll be able to put a lot more to it and understand it better.

Tarang Agrawal: Yes, net sales to fixed asset ratio.

Rajnish Sarna: We are already now operating at more than 2x, okay, in terms of assets and I think this is given the nature of our industry and intensity of asset, this is a reasonably good ratio. However, having said so, there are continuous efforts being put in both on our research side in terms of improving the processes of various products that we are producing at commercial scale in order to improve the time cycles, in order to improve the throughput of these plants, there are clear targets set in the beginning of the year for all these molecules. So, we are working towards further improving that. And yes, I mean, product mix is another factor, which plays out when we work out this effect. So, on both two fronts efforts are continuously made at our end so that we can improve the overall asset turn and overall capital efficiency of the business.

Tarang Agrawal: There are benchmarks that you are looking at or it's a very case-to-case situation.

Rajnish Sarna: Well, to be honest, we are already kind of exceeding the benchmark. We were generally in this industry 1.75 - 2 is considered to be a reasonably good benchmark, but as you know, we are already doing better than that, and therefore, wanting to set our own benchmarks. And every year we are expecting to work rather setting internal targets to improve 10% to 12%. Again, this varies from product to product. Every product has different complexities.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thanks for the opportunity. Sir, first question on the growth outlook on the CSM side. Now, we commercialized 9 molecules last year. You mentioned that we are looking forward for 6 to 7 molecules more. Couple of quarters back we did highlighted electronic chemicals being sort of picking up and we are ramping up on the non-agchem side here as well. So, just want to understand whether 18% to 20% is, because there will be a pricing led inflationary increase there as well, so this 18% to 20% how should one look at this number probably breakup of volume or realization here.

Rajnish Sarna: Yes. So, I mean, this price volume in a short to mid-term, as we have already explained in past, there is always a legion lag in this industry. But over a period of time, these prices are always inflationary, in fact, are always factored in the pricing and in the demand. But having said so, this 18% to 20% growth that we are indicating, I mean, it is, I would say, almost similar kind of growth we are expecting both on export side as well as on domestic side. Even on domestic side we have a very good visibility in terms of scaling up some of these recently launched brands and the kind of new products that we are launching. On export side, I mean, mostly it will come from the volumes, because most of the price sectors or escalations are already factored in. We certainly cannot be sitting today and imagine what kind of further inflationary increases are on the way, but so far whatever inflationary changes have come in last, I would say, 6 months or so, those are already kind of factored-in in the pricing of these products and for new chem things. So, considering that we are taking this 18% to 20% growth, which should mostly come from the volumes.

Ankur Periwal: Secondly on the overall RM inflation side. In our presentation we do mention we have been taking price hikes there to pursue the RM inflation. At current juncture, is large part of the inflation across the segments is already passed through or probably it will take another maybe quarter or so and another, just adjust into it, the channel inventory on the domestic side, how is the situation there on the ground?

Rajnish Sarna: Yes. So major part is already passed through, but yes there are several products, because again there is always a legion lag. Some campaigns are running, some campaigns have to start. And so in this kind of a scenario for some campaign products you have some inventory, for some other products you're buying inventory. So depending on different scenarios, if I see overall, I think significant part of this has already been passed through, but yes there is still room and scope for passing through for the remaining products, which will happen in next quarter.

Moderator: The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Sir, in the past you had told that many of the CSM contracts we have more like a per kilo margin or a per ton margin is what we operate with. So, any costs generally get passed through. But this inflationary scenario we have maintained top line growth, we also expanded margins, slightly counterintuitive in terms of our past understanding because the ocular margin remains the same the margin should probably come off a little, so if you could explain to us what is different in the past versus now.

Rajnish Sarna: No, it is same as what we have explained and what we have achieved. These differentials not necessarily come from the increase in the given products and their margins, change in product mix also contributes to the overall margin. And that is also important factor which has played out. Over the period or over the year or two years, there is a change in business mix between domestic and export. And within the business or within the segment, there is also change in product mix. Certain products which are at early stage of their life cycles have obviously they have better margins compared to some of the products which are a little down the lifecycle of their product portfolio. The overall understanding is the same as you just mentioned that there are transparent costs, which are very much shared with our business partners, and very clear understanding on uptrend, downtrend, these are passed through. So, that the margins in the products are maintained in a given scenario kind of increasing margin that's not the kind of situation and not the understanding.

Vishnu Kumar: Got it, sir. Any intermediate where you had in the past you were mentioning that you are developing some intermediates at your own those are contributing to the margin delta is that the answer to the question?

Rajnish Sarna: No, that's not the case here and in this overall big picture, that doesn't make a significant impact in any case. It is mainly driven by the change in product mix which has.

Vishnu Kumar: Got it, sir. Sir, any thoughts you can give of our fearsome exports, how many products would or in terms of contribution what is the early-stage molecules, what is advanced-stage molecule, some percentages, how would this change in the last few years?

Rajnish Sarna: We can talk separately over it.

Vishnu Kumar: Sir, one final question on the asset utilizations, you had mentioned that we could be doing more than what the asset tons that we were historically doing because of certain change in processes and you mentioned, is that more or less done or we still have some gap before which we need to start investing a lot for capacities?

Rajnish Sarna: No, as I have mentioned to the earlier participant that we are operating at a very efficient level in terms of asset ton, but it's a continuous improvement process. I mean, we are very effectively working on further improvements on both sides, whether it is process improvement or whether it is even further improving the product mix so that the overall throughput from the plant, revenue from the plant, margin from the plant can improve.

Vishnu Kumar: This Rs. 500 crore we are investing how many plants or any multi - purpose plants will be adding this year?

Rajnish Sarna: Well, this is not being spent on one plant or two plants. There are different categories of Capex, there is maintenance Capex, there is Capex towards some of the research side and capital efficiently and process improvement side. So, yes, I mean, there are different categories of Capex included here. But, yes, it will be more than one and a half kind of MPP capacity that will create.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss Financial Services. Please go ahead.

Rohan Gupta: Sir, you have earlier guided that your asset turns which you are aspiring to go up to close to 2.2 to 2.4x, you still maintain that with the rising inflationary scenario. And also on our Greenfield capacity additions and on top of this Rs. 500 crore Capex plans, can you guide us any further Capex plans for future?

Rajnish Sarna: Yes, so we are working, towards that improvement. I mean, we are already at over I think 2.1 or something. And I'm sure that the kind of effort that our teams are making both on research side, new products getting commercialized, product mix improving, I'm sure that there is a scope and we will surely be achieving better returns over the years. In terms of investment in greenfield, frankly at this point there is no such plan, because we have still in scope for expansion at our existing sites. So, therefore, we are considering some brownfield projects in the current year, next year, and because there is scope for expansion at a couple of our sites, existing sites. So, as and when we will need some additional area or greenfield, yes, we will surely evaluate at that point in time. But at this point, there's no such plan.

Rohan Gupta: So, sir just to clarify that right our existing facilities you think that how much investment, further investment it can absorb and also you mentioned Rs. 500 crore Capex for the current year, right?

Rajnish Sarna: Yes.

Rohan Gupta: So, how much along with, I mean, despite the Rs. 500 crore for this year, how much do you think that your current facilities without getting into new greenfield can absorb in terms of money investment?

Rajnish Sarna: Well, we have for next, I would say, next two, three MPPs and we can still get them at our existing sites, we have space in Jambusar, we have space in one of the sites in Ankleshwar, we have some other sites available. So, in that sense, there is scope for at least, I would say, next couple of years of expansion. There is no need for us to go and acquire land and start from scratch that is not the kind of scenario we are in at this point.

Rohan Gupta: Sir, another is on our pharma acquisition, any lead you can provide us. I know that we have been talking about it from last every quarter, but I think that there would have been some challenges and delays anything, any visibility in freezing there so.

Rajnish Sarna: So, no challenges or difficulties. We are very actively evaluating some options okay both on CSM side, API side in India or outside India. So, there are some interesting propositions, opportunities we are evaluating and we shall certainly announce when we get to a definitive stage.

Rohan Gupta: Sir, you mentioned that there is enough and very attractive opportunities coming from the non-ag space, especially in non-agri and non-pharma space, a new age chemicals and all. You also gave I think some number of 20% revenues coming from non-ag space. Can you sir little bit guide more toward is and how the pipeline and I think that you also mentioned that acquired 8 new products in the new agri, I mean, non-agri space, so what are these product pipelines looking and how do you see that this non-agri space going forward in next three years? What kind of revenue contribution it can have from non-agchem space if you can give some more elaborated numbers on that.

Rajnish Sarna: We have never indicated or said that 20% revenue coming from non-agchem that is not the case. 20% references to the number of molecules that are there in the R&D pipeline. I know we have say close to 40, 40-plus kind of projects at this point in time in R&D and a significant number, particularly in last one, one and a half years significant number of projects, inquiries and projects which have progressed in R&D are from non-agchem segment. I will also request my colleague Dr. Atul to also put some light on how the progress is happening on some of these non-agchem inquiries in R&D.

Dr. Atul Gupta: Yes. So, Rohan, on the non-agchem segment, we are building a state of art and accordingly the R&D infrastructure is also being aligned and created to start having a right kind of focus on the non-agchem molecules.

Moderator: The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: I just had one question on the on one of the points that you mentioned in the presentation. You mentioned that there should be two new process innovations that will be commercialized in FY23, could you just provide some color on which part of the analyzed and this would impact what kind of benefit that you've been seeing.

Mayank Singhal: Well, it is on products. I'm not sure what are you talking about P&L item, but it is on products, where we've got certain process innovations, which are getting commercialized. Yes, we've commercialized one. It'll scale up with time.

Pratik Rangnekar: That would lead to better costs or more revenue.

Rajnish Sarna: This helps in sustaining some of these businesses that we are in. The moment we get into these innovative processes, I mean, that ensure the long-term stickiness of those businesses, and that is the key driver to get into these innovative processes.

Pratik Rangnekar: Got it. Sir, this is primarily on the existing products that you have that going to make the process more efficient, is that understanding right?

Rajnish Sarna: Yes, one, I mean, one of them is existing and one of them is the new in process pipeline product that we are currently working.

Pratik Rangnekar: Got it. Thank you. Just one more on the domestic part. So this in FY22 we've seen that your kharif to overall sales ratio, the ratio of kharif sales to overall domestic agchem sales have come down, which kind of reduces the seasonality in that part of the business. Would we expect the similar ratio to continue or is there some kind of inventory punching off in Q4 or something that has happened which will not be there next year?

Rajnish Sarna: No, in fact, last financial year, if you recall, kharif was not at all good. I mean, even for the industry, given the rainfall, the vote in terms of timing and distribution and various other agro climatic conditions, the kharif season was not great for overall industry. So I don't think that can be taken as a representative case for every year. Although it is quite early, but there are announcements of normal monsoon in the current fiscal, there are also announcements of good acreages in for various crops. So, at this stage, we hope that kharif should be normal here, normal for this season.

Prashant Hegde: So, yes, it's a good question. Look, as we start introducing new products, we are also expanding into wheat crop, we are also expanding it to horticulture. So these are all basically more of Q2, Q3 and Q4. As we start scaling up these products, there will be a little bit of higher sales which we can see in the second half of the year. Having said that, kharif is going to be still a major season for us. But yes there will be more spread I can say. But in the immediate 2022-23 so we will see kharif is major.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities. Please go ahead

Chintan Modi: Sir, with the 6 to 7 new molecules that you are planning to commercialize, are these also agrochemical side or this would include non-agrochem also?

Rajnish Sarna: Yes, mostly from agro, I mean, out of 7 I think 4 products are from agchem and 3 from non-agchem space.

Chintan Modi: In your commentary when you mentioned that you are seeing good number of inquiries coming in from non-agchem side, are you also seeing similar kind of excitement on the agchem side or there is some kind of moderation also happening over there?

Rajnish Sarna: No, we are seeing good traction even in inquiries of the agchem space.

Mayank Singhal: As you can see that overall inquiry rate has gone up by 2x. So, it's indicator of both shortly.

Chintan Modi: Sure. And one more just to understand like in such inflationary, when there is such so much of rapid inflation, which impacts the Capex cost as well. So, especially, when you have committed price for a molecule to your customer and post that the Capex what you have planned, the cost goes up significantly. So, in such cases, how do you approach, is it like the ROE has kind of taken a hit or you're still able to kind of manage that.

Rajnish Sarna: Well, generally in these molecules that we work and the kind of relationship that we have with these global companies these things are very much understandable. They also understand that if, for example, if Rs.100 Capex is becoming Rs.150, I mean, obviously, there has to be overall proposition which should be sustainable for their business partner who is getting into supply. So, in these kind of business scenarios, we sit together, we very transparently discuss deliberate on these situations and these things are very much considered from their side. Generally what happened that it is not that we have done the contract and when we get into the Capex spending, both things happen together, okay. There is an understanding, broad understanding, then we start budgeting the spending. And if there is some change in the budgeting, I mean, we very transparently discuss with our business partners who, I mean, in most cases they consider these changes given the kind of scenarios that we are in and these become part of the revised plans and revised pricing structure.

Chintan Modi: What should be the tax rate that one should assume for next two year?

Manikantan Viswanathan: Yes. Effective tax of 18% to 19% we can assume for next two year.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Can you quantify the margin expansion you're talking about and what was the reason for the margin expansion? The second question is the Capex for the FY23 and 24.

Rajnish Sarna: So, Capex we have guided close to Rs.500-odd crore for FY23. It is a little early for us to kind of integrate number for next financial year, but yes, I mean tentatively we say that Rs.350 crore, Rs.400 crore is what the kind of rate that we are currently thinking. But yes I mean the more finer number would be known maybe later in the year. Your earlier question in terms of margin expansion, so margin expansion we are, I mean, in the kind of scenario that we are sitting today, where it is difficult to kind of predict that, what is the kind of cost trend that we are going to see both on raw materials and fuels and other convergence, it is really very difficult to put a number that whether it is 100 basis point or 200 basis point. But what kind of visibility that we have today is that there is certainly going to be some operating leverage with the kind of growth that we are talking, 20% growth. And therefore, I mean, we have a good headroom to improve margins from the current level that is one. Secondly, in the second half or second half of last year, okay, we have commission at least four new products, commercialized four new products. And you can imagine that in the initial commissioning time there are inefficiencies and all those things. So, we expect that in the current fiscal we will be able to certainly improve on those processes cost, and therefore, there is some room to improve overall gross margins and also because of operating leverage EBITDA margin, but at this point in time, I'll try not to put some number on it.

Sumant Kumar: Sir, can you give the breakup of Rs. 500 crore we are talking about Capex in CSM and domestic business, overall how many plants we are putting?

Rajnish Sarna: Well, it will be mostly in the CSM space, because we hardly do Capex in our domestic marketing distribution.

Sumant Kumar: The Rs.500 crore for CSM, how many plants we are installing?

Rajnish Sarna: No, I already answered this question my friend to the earlier participant that there are different sections of this Capex. For example, there is Capex for maintenance, there is Capex in our research and development center, there is Capex in all these new technologies we are developing for future. So, it is not that all Capex is going for building a multiproduct plant or capacity. As I mentioned to the earlier participant, yes, capacity to the tune of one to one and a half multiproduct plant will certainly be there. This is what we're building as part of Capex.

Moderator: The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Sir, first question is on the potential growth that we can see through M&A beyond the 20% kind of growth indication what we have provided. So, could you give some sense on that sense, sir? I think the pharma is one angle that you have been indicating and I think that is not obviously built into the expectations or guidance. So, can you share something there?

Rajnish Sarna: Well, again putting a number here is difficult as you can imagine, because it will all depend on the size of the asset that we acquired, the size of the business that we acquire. So, yes, but all sudden then this will be in addition to our guidance of 18% to 20%.

Surya Patra: Okay. Sir, just something slightly more on the pharma side I think having seen whatever the kind of deal cancellations and now we are also getting ready for even international M&A. So, what is the thought process there sir? Is it like having a base closer to the customer so that is why the international acquisition that is what is the thought process or something else.

Rajnish Sarna: Yes, so thought process is I think we have in past very clearly guided that what is our aim in diversification. Our aim is that as part of our long-term strategy we want to kind of build a differentiated business model, okay, which is eventually in line with what we are doing in agchem as CSM player. So, we kind of eventually build a differentiated CDMO model in pharma and on this path we will start from somewhere and we believe that as a roadmap to get to this ultimate objective, it would always be beneficial for us to have certain assets in India and also some sort of front end in some of these developed markets, whether it is U.S. or Europe and some of these other markets. So, with this aim we are looking at opportunities both in India as well as outside India.

Surya Patra: Sir, my next question is on the domestic formulation business. I think this 47% kind of growth in the fourth quarter, what was the kind of volume led growth and what would be the pricing growth and generally sir having seen since you have recently guided that means recently in the sense in the previous question you have mentioned that possibly second half of the year is likely to see a better growth driven by the new launches, that and considering the low base of first half of last year, so is it fair to believe a strong double-digit kind of growth in the domestic formulation side that we should look at?

Rajnish Sarna: Yes. So, we are certainly expecting high double-digit kind of growth in the domestic area in this fiscal 23. Now, how much happens in the first half of the first season, kharif season and the Rabi season will also depend on how these seasons are pan out and the, how the initiation of monsoon happens. But as I was telling earlier, the very preliminary indications are positive both on the monsoon as well as the acreage growth that we are witnessing. So, this looks positive. Since in the last year we had a little softer scenario we expect that in the in the first season this year, we should have reasonably good growth.

Surya Patra: Okay. In this first part of the question sir 47% growth, what has really led that in the fourth quarter?

Rajnish Sarna: This was led by both, I think, introduction of some of the new products, some of the recently launched products like wheat herbicide did very well. I mean, we significantly improved our volumes and acreages that we had done last year, this year we kind of doubled and tripled those acreages and the volumes in wheat herbicide. Some other products were also launched. And also we went very aggressive even in horticulture space, where we could also resisted some good growth. So, all these aspects contributed in this growth. And relatively, if you see last year fourth quarter was also not very high or significant growth. It was, I remember, close to 11%, 10%-11% growth. So that also helped.

Surya Patra: Okay. Sir, on your permission, last question sir, just to understand better on the margin profile front, see we have consistently and confidently delivered around 19% to 20% kind of growth CAGR over the last five years, but we have remained in the margin far as margin profile is concerned, we remain in the range of around 21%, 22% in that range. So, going ahead, is it the product mix, the newer product or the pipeline product, that will drive the expansion further or it is an efficiency which can drive further or it is a domestic to export mix that will rise the margin further, so some sense on that would be really helpful.

Rajnish Sarna: Well, by the way, we grew by close to 35% in last fiscal and I think close to 30% in FY20. So, you can imagine that we are growing on a bigger base, while we guided for 20% or close to 20%. But we as a management we always believe in exceeding and outperforming our guidance. And those were also very uncertain times. So we were also very cautious as we are integrating. Now this year we grew by close to 16% on overall year basis. The margins, as we explained earlier, overall scenario and probably I'm sure that as an analyst you will also kind of give this credit to the management team, despite all these adversities around the supply chain and increasing cost trends and also the inefficiencies which come along with the introduction of four, five, six new products, despite all this, we were able to kind of maintain, I will not say significantly improve, but maintain the margin profile. And by the way, this year there were also several one-off because of our strategic initiatives. So, these are the reasons that we believe that we will improve upon these three, four areas. And therefore, given the operating leverage that we shall get in the next financial year, and help us improve our both margin as well as return profile.

Moderator: We have a question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: Thanks for the opportunity. Just one clarification, this $1.4 billion order book is largely CSM order book, right. It doesn't include the non-agchem book?

Rajnish Sarna: Yes. This is the CSM order book.

Viraj Kacharia: Okay. So the question is if we were to kind of understand the CSM revenue growth say between the newer molecules and the older molecules, over last say two, three years or how would that have been? And the reason I'm asking this is because if you look at the overall order book, we've been around $1.4 billion, $1.5 billion for quite some time now. And if you look at the overall environment around us, we've seen more and more competitors also getting benefiting from this whole contract manufacturing and transfer of more molecules from the global partners. So just trying to understand have we kind of lost any business or the older molecules and how is the kind of market share in terms of incremental new molecules, just any perspective you can share on that.

Rajnish Sarna: Yes, so, I think there are two, three points in your question. So, let me try and answer, address them. First of all, yes, order book has remained around this number, but as we kind of explained in the past, we are growing at, as I was telling earlier, 30%, 35% for last few years. This year we have grown close to 20% in exports. Now, despite this kind of supply, we have still maintained, sustain this order book. That is one. Secondly, given the kind of scenario that we are, at least for last two years, first COVID, and then this global supply chain, and now again, very, very volatile global supply chain, post these recent conflicts and all, I think both from the customer side as well as from our side, everyone is a little tentative in terms of committing very, very long term book. From our side in terms of capacity, from the customer side in terms of the global situation, should they be completely banking on one country or should they be balancing their overall procurement from more than one geography and all those questions. So, given this scenario, I mean, there is little, I would say, slow down in terms of taking very, very long term calls and investment calls. But that doesn't mean that it is anyway impacting the business okay, because the business growth is continuing as is also clearly reflected in our performance. The second part that, is it that these other companies and other Indian companies are taking away this growth or something? So, to be honest, I mean, if you see overall speciality chemical area, overall Indian speciality chemical growth, I think there is a very decent growth, and many companies have done really well. But I think there is a play for every company here. There are different segments, different models, business models, different portfolio of products. And question is that which model, which category, which segment is sustainable is the point for someone like you to assess. But given the kind of business model that we are in for last more than two and a half decades and the kind of business principles that we have around portfolio of being into the early stage, long term sustainable kind of model, frankly, we are very happy to kind of sustain this 20% 25% kind of growth, which we believe can be sustained for many years to come.

Viraj Kacharia: Just one follow-up, you talked about having alternative models in the marketplace and some of the players have actually gone ahead and JVs with MNC partners for patented molecules. So, from your position, do you see the overall opportunity landscape being lesser now? I mean, what's your reading of other MNC partners in terms of exploiting this kind of a structure vis-à-vis say engaging with us in terms of the new molecule pipeline?

Rajnish Sarna: Well, frankly, I was not able to clearly hear what you were saying. Your audio is not very clear.

Viraj Kacharia: So what I was saying that, rightly said there are other alternative models here and there are some companies have actually gone ahead and run JVs with MNC partners for patented molecules. So from your position, does that kind of reduce the opportunity size by to some extent? And from your interaction with other MNC partners are you seeing their understanding in terms of exploiting a JV structure vis-à-vis say engaging someone like PI for me molecule and scale up?

Rajnish Sarna: Well, not really, I mean, we don't see this as kind of any dearth of opportunities. I think we already highlighted in some of these earlier questions that we are seeing a traction, we are rather seeing a traction in the inquiries, in the new business opportunities that are coming to the table. And in fact, these JVs or patented JVs, I mean, all of these have been done 10 year back by PI in terms of joint ventures with some of these global business partners, tie ups with these global companies we are doing for last 25 years. So point is that it is certainly not a loss of opportunity for us or some sort of reduction in opportunities for PI, not at all. In fact, we are seeing good traction in terms of overall inquiry, demand scenario, business interest. There is also addition of new customers as you would have read in some of our presentations. So I think this is quite a positive scenario at this point.

Moderator: The next question is from the line of Gaurav Chopra from Union Asset Management. Please go ahead.

Gaurav Chopra: Sir first question was just an extension to I think previous participants question on the order book. So given you've allocated last two years have been volatile and you have been sort of reluctant or tentative to this order book, do you think going ahead we will see accretion of the order book because we are already over $0.5 billion in the CSM space, so do you think that you'll add to this number?

Mayank Singhal: Yes. And again I must answer this in a different way. Order book may not be the only the way it's good when you're in the initial stages of business. But I think once you're creating certain class of assets and capabilities for certain products, the stickiness is already created. It's not really driven only by order book. Order book was actually taken as a, if you were asked me in the early stages, as a part of risk management for the company. And also that came at a cost. I think now we have a different level of stickiness. So hence order book is not really the driver, because if you've got some products running 5 years, 10 years and with your capabilities and benchmark where you are, the customer wants to work with you and you want to work with him. So, that risk factor is no different today for PI compared to what I would say 5, 10 years ago. So, therefore, we are not really driving this as a way. But we are always looking at the opportunity, scale and optimizing it.

Gaurav Chopra: Got it, got it. Also, sir, secondly, is there any contribution from pharma currently in our piece or if yes what would that number be if you can sort of share that?

Rajnish Sarna: No, that's not a significant number. I mean, I think as we guided earlier, we have scaled up couple of products, couple of pharma intermediates. But this is not a significant number.

Gaurav Chopra: And for non-agro chemicals if you can share that number apart from pharma.

Rajnish Sarna: Yes. So, there are three, four projects again we have commercialized in last one year. But as you can imagine that initial year these are not very significantly large numbers. But yes over the years we are expecting them to scale up and then become a meaningful number.

Moderator: The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: The first thought is in terms of the initiatives on the non-agchem space, is it possible to share in terms of the investments require in the margin profile and the kind of synthesis require, is it going to be similar to whatever we have been doing so far or is there any difference and will it help you improve the quality of the business in term of the asset term and the kind of synthesis, high value synthesis use, what are your thoughts on that?

Mayank Singhal: So, right now I would answer it with one approach is obviously we are looking to move up the value curve in terms of capabilities and offering. And we remove the curve, the parameter need to get better and that's really the idea of moving into that space.

S Ramesh: Okay. And the second part is on the domestic business. Is it possible to share what are the kind of 93 registrations you received last year and how many registrations are you file for as on date?

Mayank Singhal: Well, I think we received two 93 registrations last year.

Prashant Hegde: Yes, you are right. We have received two 93 registrations last year and three more in pipeline for the coming year.

Moderator: We'll take the next question as a last question from the line of Tejas Sheth from Nippon India. Please go ahead.

Tejas Sheth: Sir, if you are expecting 20% kind of growth, so broadly that would be around Rs.1,100 crore on the spectrum side. The current CapEx which we did of let's say around Rs.340 crore, wouldn't that be short of achieving that kind of revenue growth?

Mayank Singhal: Well, business I think if you look at, we did Rs.1,400 crore of Capex over the last two years before that plus it's not Capex drive, it is about as we said earlier, is about asset improvement. If you're to ask me we have about now 15, 16 plants, 10% improve in efficiency and throughput creates plants. So, it is not linear. One side we have a focus on asset turn. The other side we want to look at Capex. So, I think growth is clear, but how to continuously optimize the use of technology and efficiency is what we drive, not really just Capex. Capex would not be the right benchmark in the chemical and process industry unless you had commodity chemicals where you can look at capacity and capital as a part of throughput increment, not in the process and technology business that we are in the at the higher end of the value chain.

Tejas Sheth: And the typical contract, the price contracts or the cost pass on contracts which we have with our clients, those contracts also include other expects like logistics cost or it is just RM cost increase driven?

Mayank Singhal: Well, each contract is different, but if you look at the bigger picture, logistics is not a very large proportion of our cost given the value addition that we do with our products. Obviously, that matter will be at high volume commodity, low value products that would matter, but that's not a large component of that in PI offerings.

Moderator: I now hand the conference over to management for closing comments.

Mayank Singhal: So, thank you everyone. Deeply appreciate all your support for coming on to this call today and we look forward to a great year and I wish each one of our team members for all the very best and look forward to. Thank you.
