



## PI Industries Limited

### Q1 FY24 Earnings Conference Call Transcript

#### August 10, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY24 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 a 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, Mr. Solanki.

**Nishid Solanki:** Thank you. Good evening, everyone and thank you for joining us on PI Industries’ Q1 FY24 Earnings Conference Call.

Today, we are joined by senior members of the management team, including:

- Mr. Mayank Singhal – Vice Chairman and Managing Director
- Mr. Rajnish Sarna – Joint Managing Director
- Mr. Manikantan Viswanathan – Chief Financial Officer
- Mr. Prashant Hegde – CEO (Domestic)
- Mr. Atul Gupta - CEO (Exports), and
- Mr. Anil Jain – Managing Director, PI Health Sciences

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. Thereafter, the forum will be open for question-and-answer session.

Before we begin, I would like to underline that certain statements made on today's conference call may be 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 websites.

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

**Mayank Singhal:**

Good evening, everyone. It is my pleasure to have you with us on this call. I shall now share my perspectives on the industry landscape and the progress that we are making with our strategy.

The global crop protection industry is witnessing a tough phase over the last couple of quarters with intense destocking by the distribution channel due to increased availability of certain categories of product post the normalization of the COVID disruption and scenarios of steep price reduction of these products leading to cautious procurement by the channel. On the other hand, the Chinese economy is experiencing slack domestic demand, and it is exporting deflation through stepped up exports of goods. It is already impacting the chemical sector across the value chain.

Given that we at PI overall year-on-year basis during Q1, we have delivered a 24% revenue growth and a 35% increase in EBITDA and a profit after tax recorded a 46% growth year-on-year. PI has though maintained course of healthy performance in its CSM exports with a 33% growth year-on-year. This performance comes back with continued strong growth in further endorsement of our approach in the business.

Our domestic business performance for the quarter has been subdued due to the delayed onset of the monsoon. But on the positive side, we have kept tight control on trading working capital and the overall market scenario has focused more on qualitative aspect of the revenue than the volumes. We are confident of getting back on our growth path with the normalization of rainfall during the second half of the kharif season. We continue to maintain the momentum of new product launches. Five innovative products are planned for this fiscal year. In Q1, we have launched EKETSU. EKETSU is India's first three-way herbicide mixture to provide maximum weed control and efficacy for total control in rice herbicides. This will further fortify our portfolio of rice crops, already one of the best in the industry. The business has long pipeline of products, and exciting launches ahead.

Our business model is aligned to commercialization of advanced molecules for innovators, thanks to a very visible track record, our engagement of scale up as well. This goes beyond Agchem. It is our intent to create a dedicated platform for the pharma CRO and CDMO play. I would like to share that this process of integration of our pharma CSM acquisition is underway and tracking internal milestones. Our combined R&D capabilities with the brand-new integrated pharma research center being developed in Hyderabad for the CRO and CDMO offering further bolster onto our business proposition.

Our forte has been our vast library of knowledge of complex chemistries with high scalability and competitive manufacturing footprint and our ability to tailor our solutions to specific circumstances to meet and be customer centric. The continued traction is delivering and driving healthy accretion to our order book position in a virtuous cycle between innovators and PI. During the quarter under the review, we have commercialized one new molecule and remained well on track for commercializing 4 to 5 new molecules every year as guided earlier.

While the industry outlook for the AgChem demand is soft with some forecasts projecting single digit contraction in the year '22-23 relatively to the previous year. However, at PI, we especially focus on new chemistries and with our advanced portfolio of products and given the visibility that we enjoy, we remain cautiously optimistic to achieve the given target of between 18% to 20% revenue growth in the current fiscal despite the headwinds explained above.

We should have to keep a close watch on the market scenario and review our guidelines after the upcoming kharif season. This will be supported by ramping up the production of already commercialized molecules and the introduction of new molecules.

For the long-term perspective, India remains the locus of growth for chemicals. It is believed that India has achieved the AgChem exports worth USD 5.4 billion in 23, up by 10%, making it the second largest exporter of AgChem in the world. With policy supported by manufacturing in AgChem, these exports are expected to double in the coming 3 to 4 years. India is already the 4th largest producer of Agchem, and now No. 2 in the world from the previous year. The Government is considering PLI scheme for chemicals and AgChem domestically, and that can further accelerate the strength. With policy acting as the catalyst, the industries are plugging in gaps in the value chain with a view to offer innovators of chemistry as well as customers at the other end, added incentives to expand here. Therefore, the long-term perspective of this specialized chemical industry remained bright despite the current blips.

PI remains dedicated to driving progress in a sustainable manner. ESG still remains the center point of every initiative on our growth execution. We deem it as our responsibility to align our processes, production and products for a thriving and vibrant environment for our purpose of reimagining a healthier planet. This is reflected and can be tracked through outcomes we script.

I now close my perspective and hand it over to our CFO – Mr. Manikantan to take the discussions forward. Thank you once again to all of you. Over to you, Mani. Thank you.

**M. Viswanathan:**

Thank you, Mr. Singhal. Good evening, everyone and thank you for joining us on the call today. I'll summarize the company's financial highlights for the fourth quarter ended 30<sup>th</sup> June 2023. Please note all these comparisons are on a year-on-year basis and refer to the consolidated performance.

During Q1 FY24, we reported a revenue of 19,104 million, a growth of 24% year-on-year including newly acquired pharma business and 21% revenue growth without it. This was driven by growth in exports revenue by 37% to Rs. 15,630 million, offset by a 13% decline in domestic revenue to 3,474 million. The export revenue growth in CSM was 33%, comprising volume growth of 29% and 4% from price, currency, and favorable product mix. This quarter, total exports revenue included pharma revenue of Rs. 443 million comprising around 2 months period for Archimica from 27<sup>th</sup> April 2023 onwards and one month period for Therachem from 2<sup>nd</sup> June 2023 onwards. Domestic revenue was contracted by 13% year-on-year due to delayed monsoon leading to volume degrowth. The gross margin increased to 47% including pharma and 46% excluding pharma. Gross margin excluding pharma has jumped by 201 basis points. Pharma gross margin was 75%.

EBITDA increased by 35% to Rs. 4,726 million for the quarter on account of favorable product mix and operating leverage. EBITDA includes pharma EBITDA loss of Rs. 54 million after one time acquisition, integration, and initial business set-up expenses. Profits after tax increased by 46% to Rs. 3,829 million attributable to EBITDA growth and lower effective tax rate despite higher depreciation. Cash flow from operation activity during Q1 FY24 was Rs. 3,028 million.

Trade working capital in terms of number of days of sales improved to 83 days as on 30<sup>th</sup> June 2023 vis-à-vis 102 days as on 30<sup>th</sup> June 22. Inventory levels reduced in terms of days of sales to approximately 73 days to Rs. 14,049 million excluding pharma inventory of Rs. 1,260 million vis-à-vis 89 days as on 30<sup>th</sup> June 2022. Our

balance sheet further strengthened during the year. Net worth increased to Rs. 76,094 million as on 30<sup>th</sup> June 2023. CAPEX in Q1 was Rs. 6,490 million including pharma acquired assets of Rs. 5,249 million through business combination. The CAPEX excluding this addition is Rs. 1,241 million. During the quarter, we completed pharma acquisition of Archimica and Therachem Group amounting to Rs. 8,560 million.

Post acquisition outlay, the surplus cash net of debt is Rs. 28,066 million including balance in QIP funds of 11,320 million. QIP funds remained invested into the deposits and debt mutual funds with SLR philosophy, while final deployment aligned with PI's long-term growth strategy is underway. This concludes my opening commentary. I will now request the moderator to open the forum for Q&A. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Jhawar from Investec. Please go ahead.

**Aditya Jhawar:** My first question is on our pharma asset. So, how is the integration process progressing and if you can give some qualitative information on the same and how should we think about the growth of this business? Do you foresee a significant increase in capacity utilization in these two assets versus around 50% of what we saw last year?

**Anil Jain:** I am Anil Jain here. Your first question is about the integration piece. Basically, three pieces namely Archimica which we acquired and it is in Italy, TRM in US, India & Hyderabad Research Center, which is newly built up and it's also in process of getting fully ready to start. Currently we are progressing well on operating model, IT updation and HR integration built up.

We are also working with a global advisor for the business transformation across the areas including R&D, manufacturing and supply chain.

The second part of your question is on pharma revenue. We are aiming to achieve what we have committed. Gradually quarter-on-quarter business would build up as one of the company's performance is 28 days and other of 34 days only.

**Aditya Jhawar:** That is quite helpful. Now in this quarter, there was this one-time acquisition and integration cost. If you can just call out what was the cost and how should we see the margin trajectory of the pharma business in the remaining part of the year?

**Rajnish Sarna:** So, in this quarter in terms of financials, there were couple of one-offs. One is obviously the acquisition and business setting up costs and all to the tune of more than Rs. 100 to 120 million. The other is the impact of the IndAS-115 because the acquired entity, particularly the Indian acquired entity was not accounting as per the IndAS, whereas in PI Health Science we follow the IndAS. Going forward, as we indicated earlier, there are going to be initial phases where we will be investing in the development of these acquired businesses and also the transformation of some of these businesses. So, obviously the EBITDA margins that we are looking at are going to be on a lower side. But on maturity, we would surely expect and target 20%-24% plus kind of margin once we get to the maturity which will take more than a year's time. In the initial phase, we are expecting anywhere between 14%-15% of the kind of margins that we have indicated earlier.

**Aditya Jhawar:** My final question is, sir, what would be the total CAPEX guidance for FY24? It will be great if you can give a breakup between CSM and domestic as well as the pharma piece? The core business and the acquired assets, sir, separately?

- Rajnish Sarna:** We had indicated close to Rs. 850 crore – Rs. 900 crore of CAPEX for the Agchem business. For pharma, we have close to \$10 million-\$12 million is what we will be investing. So, that's the current guideline on the CAPEX and we maintain that guideline.
- Moderator:** Thank you. Our next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** First question is you have mentioned in the presentation that 13 top molecules identified for capacity enhancement. These are the molecules which have been launched in the recent years or these are more matured molecules and we have seen good amount of scale up happening from the off-tech perspective? Thank you.
- Rajnish Sarna:** So, these are all operating objectives that are taken by our cross functional teams on a regular basis, and these are not recently launched molecules. Over the years we have commercialized many projects and out of those projects, as the processes improve year-on-year, our teams have identified opportunities for throughput improvement.
- Rohit Nagraj:** Sir, second question is in commentary as well as in presentation, we have said cautiously optimistic on the CSM segment. So, in the last 1.5 months of the current quarter, have we seen any kind of slowdown in terms of volume offtake and a concurrent question to that, the 18% to 20% guidance, does it now include the pharma piece as well or is it excluding the pharma, please? Thank you.
- Rajnish Sarna:** As far as the global scenario etc. is concerned, it is not only last one month, one and a half month, but we have been seeing this for the last few quarters that there are certainly headwinds in general in the industry. And that is more particularly towards certain categories of products on the generic side. So far, we have not seen a dramatic change as far as the demand scenario for our products is concerned. But we are saying cautiously optimistic because ultimately some such longer term trends may have some impact on the overall industry demand scenario as well, though we have not seen it so far, but as indicated we would also like to review this overall plan and guideline maybe post kharif season, by the time we'll have a better understanding and better visibility of that. But at this point, we do not see any dramatic change or new development.
- Rohit Nagraj:** And does it include pharma as well? Just to clarify. The 18% to 20% guidance that we have...
- Rajnish Sarna:** Well, our idea is that pharma, whatever contribution it comes will be on top of it. But as I said, we will review all this post kharif season.
- Moderator:** Thank you. Our next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Kumar:** Can you talk about the domestic business 13% degrowth and how things are panning out in the current season, in the coming quarter?
- Prashant Hegde:** So, the first quarter, you already might have seen from the industry, in fact, we anticipated it from at least last three or four months. So, that is why we were also cautious in terms of our procurement, especially on the generic products knowing this volatility; however, from July onwards, the positive momentum has built up. We

are having especially commercialized seven new products last year, those are doing good and this year also we have a plan to launch four new products, in that one we already commercialized in quarter one. So, this has definitely helped us, and this will continue to help us in terms of showing positive results in coming quarters.

**Rajnish Sarna:** So, just to add, in terms of market sentiments, market activities, there is certainly an improvement compared to what we have seen in the first quarter. But yes, in net cases there are a couple of months to be monitored and see how the overall Kharif season will pan out.

**Sumant Kumar:** Can you talk about pharma like-to-like growth Y-o-Y and also what is the quarterly run rate if we will consider from the month of April, for both subsidiaries.

**Rajnish Sarna:** First of all, it is not possible for us to share Y-to-Y growth on like-to-like basis because as Anil explained earlier, in one business we have revenues of 30 days or less than 30 days. The other business we have revenues of I think 50 days or something. So, we certainly do not have past data on these companies' businesses for the same period the previous year. So, that is the reason we do not have that like-to-like comparison and why this business or current quarter performance? I think Anil, has already explained. You may want to add something.

**Anil Jain:** As I said earlier, it's only one month performance right now and you know the CRO and CDMO business is generally customer delivery driven, they are not driven by the months. So, sometimes it comes up, but we are confident that in the coming quarters, we will be able to meet expectation.

**Sumant Kumar:** So, I'm asking whatever the number we have published in the acquisition note for the FY22-23 or say CY23, there will be any growth on that?

**Rajnish Sarna:** If you see, those numbers were for the calendar year, if I'm not wrong. So, we'll have to see, but on an annual basis, what is that we will be finally seeing the number. But yes, in certain businesses, we are expecting growth. In some other businesses, it is flat as per the current rate, but on like-to like on quarterly basis, data is not there for us to give you a straight answer.

**Moderator:** Thank you. Our next question is from the line of Vishnu Kumar from Avendus Spark. Please go ahead, sir.

**Vishnu Kumar:** I wanted to understand on pharma, just on continuation, now that all the plants would be running fully, is it like Rs. 150 crore to Rs. 170 crore at least would be a current run rate that we'll achieve from 2Q onwards? If I just do some approximation on the pro forma numbers.

**Mayank Singhal:** That is based on our acquisition stage, what number we give. We are hopeful of going in this direction in the coming quarters.

**Vishnu Kumar:** And also, on the on the CSM side, we see that 29% volume and pricing continues to be positive, but with across raw material deflation, I wanted to understand how long this pricing will continue and generally when we talk to the customers, when does this price negotiations happen? Like because there's a deflation, should we continue to believe that this will help us on the margins or at some point we'll see some pricing cut?

**Rajnish Sarna:** First of all this raw material deflation is not the same all across the product and varies from product to product. But yes, wherever there is substantial improvement in raw

material prices or reduction in raw material prices, obviously going by our business model, new prices are factored in, in the next supplies or next contracts or purchase orders and all.

**Vishnu Kumar:** So, this 25% margin would be a new normal to be considered or any guidance on the margins if you could help us understand?

**Rajnish Sarna:** As we have explained in the past the 24%-25% margin is coming from 2-3 factors. One is obviously the operating leverage, the other is the product and business mix and all. And yes, we are confident that given the kind of visibility of business plans, volume, and value that we have, we should be able to sustain these margins.

**Vishnu Kumar:** And one final if I may. Sir, we've done almost 30% growth plus in the CSM and you also mentioned that our growth is not impacted, but if I take 18%-20% guidance, it looks like even if you do 12% to 14% growth is enough to achieve the guidance. Is this like we are taking a conservative approach or do you have some indications that your delivery schedules in second half will be slightly lower, just some sense here?

**Rajnish Sarna:** We are cautious. It is not conservative or optimistic. But yes, I mean we are cautiously optimistic that yes and in any case as indicated, we will review this overall situation in 3-4 months now.

**Moderator:** Thank you. Our next question is from the line of Abhijit Akella from Kotak securities. Please go ahead.

**Abhijit Akella:** Just two from my side. One is on the CAPEX for the quarter, it is about Rs. 120 odd crore excluding the pharma acquisitions. We've guided to almost hitting Rs. 850 crore-Rs. 900 crore for the full year. So, should we expect a big acceleration in the remaining part of the year?

**Rajnish Sarna:** This is as per the plan only. The major part will be coming in subsequent quarters as the execution progresses. But yes, the annual plan remains what I indicated around Rs. 850 odd crore.

**Abhijit Akella:** And the second thing is just that on the guidance 18%-20% growth, earlier it included the domestic business also. So, in light of this quarter's challenging performance there, do we sort of stick with that expectation, or should we assume that 18-20% is only for the CSM piece for now?

**Rajnish Sarna:** You're right and that's the reason at this point we are saying we are optimistic cautiously that if things pan out well for the remaining period of kharif, we should be able to get there. But if not then, we will surely come back with our revised estimate.

**Moderator:** Thank you. Our next question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

**Vivek Rajamani:** Sir, two questions from my side. Firstly, on agrochemicals, if it's possible to give some color on what is the kind of inventory situation that you're seeing for your specific products? We've obviously been hearing that there's a lot of inventory across the system, but if you can provide any kind of color with respect to what you've been hearing from customers, which would be really helpful. And the second question I had was on margins, again, very strong margins that we have seen in this quarter. I just wanted to get a sense if there was any specific factor that you would like to call out which was driving this sequential jump and just going forward should we be aware of any seasonality in the upcoming quarters? Thank you so much.

**Rajnish Sarna:** Well, in terms of inventory in general, we do not see a significant challenge or stocking in the product that we are dealing with/exporting. In domestic, Prashant, you may kind of highlight.

**Prashant Hegde:** Yes, overall, we know the price has been volatile. So, that is why we were cautious even in Q1 in terms of our placement as well. Now with the demand picking up, we don't see any major concerns so far. Overall, domestic side demand is now from July onwards. We are seeing that it is coming out stronger. However, again it is last 1.5 months only we are cautious. We have to wait and see how these things progress for the remainder of the kharif season.

**Rajnish Sarna:** And your second question in terms of margins, I already explained to the earlier participant that last year from 22.5%-23% currently we are whatever few 100 basis points that improvement is there, is mainly on account of the operating leverage and favourable product mix, particularly in the domestic business where the volumes were becoming challenged given the overall market scenario monsoon situation. We have very clearly focused on the quality of revenue and margins and that is clearly reflected here.

**Moderator:** Thank you. Our next question is from the line of Ankur Periwal from Axis Capital. Please go ahead, sir.

**Ankur Periwal:** My first question on the R&D side. Looking at the annual report, we have seen a sharp increase in the R&D manpower as well as spends. So, just your thoughts there, is it related to the Agchem side or the new chemistry side or it is also focusing on the pharma and one can expect a larger number of new product launches there?

**Mayank Singhal:** Till March 23, we did not have the pharma in this zone. This increase is coming from Agchem side and the process research and development side and also the biotechnology fermentation that we put in there.

**Ankur Periwal:** So, the incremental addition that we have seen now, will this also be including the allocation for the pharma R&D?

**Mayank Singhal:** No, that is going to Agchem now as I said because the pharma piece has come up later, right?

**Ankur Periwal:** Looking at the last three years number, there is almost doubling of the manpower there. Anything you'd like to share on the other performance chemicals or the electronic chemicals that we have talked about earlier?

**Mayank Singhal:** Clearly, we have taken some of those areas of work. The good part is that we can update about where we are on the commercialization on the fine chemical areas and what you're seeing there, please go ahead.

**Atul Gupta:** There had been good amount of traction around the electronic chemical segment. And there is a good amount of enquiry in pipeline and advanced development stage. We would be commercializing 4-5 molecules in the electronic chemical space. And as you know, Mr. Mayank said that there are other adjacencies where we are trying to build the platform for the biotechnology fermentation and the other new technologies and that's where you know these additional energy resources have been...



- Ankur Periwal:** And secondly, we also talked about rejigging our product portfolio, focusing more upon the ESG angle of the environment part of it. Is this comment focused on crop protection, the domestic business or you are including CSM also here?
- Management:** No, if you look at PI, it's a part of the PI strategy in every facet of our products, just not in one business area or two. We'll definitely look at this, whether it's Agchem brand, whether it's manufacturing CSM or tomorrow it's Health Sciences, automotive electronics, we're going to keep that anchor as a key driver.
- Moderator:** Thank you. Our next question is from the line of Rohan Gupta from Nuvama. Please go ahead, sir.
- Rohan Gupta:** Congratulations on such a strong set of numbers despite the weak industry scenario. Sir, the first question is on further clarification on that. While we are seeing that the entire industry is suffering from the inventory destocking, especially in a global market, we still have been managed to grow 29% in terms of volume growth. Sir, if you can explain a little bit more, is it some because of the nature of our product or the product basket which we have that continuously seeing the higher volume growth and there was no inventory buildup has happened in last one year at all and that is driving the growth or it is just only that customers keep on buying from you without any pushing or without any delays or spillover that is still driving the growth for you and me, impact our growth going forward if they are consuming or if they are sitting on the inventory on our behalf.
- Rajnish Sarna:** No, the earlier is the reason. This is all about quality of the product portfolio which is driving this growth for us. These are, as you know, early-stage molecules, they are growing in different markets and basically, these are not mature products per se compared to some of these generics which are getting beating in the global market. So, as a result, our customers are also facing some significant challenges or concerns around inventory pileups and other things of generic/mature products.
- Rohan Gupta:** So, if I extrapolate this thing and since we have not stuck with the higher inventory in the system and there is no Chinese dumping in our case because we are early stage of product. So, end customer demand and especially for the new molecules for products like us is still so solid that we have been able to deliver a 29% kind of volume growth having I mean if the industry would not have stuck right now with the high inventory which is the case for most of the products in the market. Do you see that the farmer level demand is still so strong as is in case of your products, definitely your products are in early-stage molecule but still is farmer level demand is very strong.
- Rajnish Sarna:** Well, my personal view is that farmer level demand is strong even for generics, where there is a volume dip. The challenge is coming because of high inventory in the channel. So, the inventory destocking is happening at the channel level, but that doesn't mean that the consumptions have gone down, or acreages have gone down, that is not the case. So, yes, even in generic products, it is more about channel destocking than the significant reduction in consumption. You take any global scenario and also local scenario in terms of acreages. Prashant, may add in terms of acreages, we have not seen any significant reduction. The other impact is that some of these generic products, prices have gone down and therefore the values have come down, which is not a major issue in the case of products that we are dealing.
- Prashant Hegde:** Overall, in terms of acre, there was a delay in terms of sowing, so at the end of June we have seen somewhere around 16% to 20% reduction, especially in rice. But if I look at just few days back, overall, it is more or less similar to last year if I look at all

the crops, yes, rice is up. That is positive news. However, cotton is down by around 2%, rice is up by around 3% and pulses are down by 9%. But all other crops are more or less similar to last year and overall gross crop area is 0.2% down compared to last year. So, this is nothing. So, it's more or less, the demand definitely looks like coming up. But as I said, still we are early into kharif, and we have to wait and watch.

**Rohan Gupta:** Sir, just on the extrapolation of the same thing, since you are saying that we are not stuck with the high inventories in the market and demand from the farmer level remains strong. So, when other companies are giving the commentary, they are not sure about how much inventory is there in the market and what is going to come up from China, but in our case, we should be fairly confident about it if the farmer level demand is strong. I still didn't get the reason that we are still making a statement like cautiously optimistic while we are seeing that the farmer level demand is coming, and it is still strong. I understand that the domestic market may have volatility with the kharif crop volatility, but as far as the global markets are concerned, we should be fairly confident about our volume growth in the current scenario, isn't it so?

**Mayank Singhal:** Well, that is a very optimistic way of looking at it. But if you look at our products, these are the high-end inventory in the price point. When we are below a certain point it does have a temporary glitch, right? You can't say that it doesn't have any impact, so those are the things we are cautious about. We are watching. The buffer is there, but that obviously becomes little impactful, but you don't go out and say because of that, I'm going to start doing erosions, which are short term in order to meet that because that's not going to change scenarios. So, this is the balance in the economy which you need to keep looking at demand scenario, competitive price, product availability and how the balance between availability and value creation.

**Rajnish Sarna:** Just to add one more point, there is always a lead and lag even in getting the information on the ground. You see this is not a very advanced industry per se from the agriculture and rural fields or even in the global arena, collecting updated inventory data from the rural markets is not easy and there is always a lead and lag, so we have to be a little cautious and careful in even reading these data points.

**Rohan Gupta:** Sir, employee cost on consolidated basis is Rs. 173 crore and standalone are 150. That means that for subsidiaries, Pharma Asset which we have acquired roughly Rs. 23 crore that is a fairly high number. And I believe that the one-off which you have mentioned will be adjusted in other expenses.

**Rajnish Sarna:** I do not know how you have come to this comparison that number is high or low. But yes, if you look at the acquired business, the overall revenues etc. are for a very small period. There are also setting up expenses that are happening, for example, we are setting up a Hyderabad lab. We are also hiring, and acquiring, many of these top leadership players in the pharma space to unleash value out of these acquired assets. So, yes, in the initial phases as indicated earlier, we are certainly going to see some of the development spend, including the manpower spend.

**Rohan Gupta:** And sir in your consolidated reporting, when we have started giving segmented financials, we also have some part of business coming from pharma, but that is not clubbed in pharma segmentation. Any particular reason for that?

**M. Viswanathan:** In the segmental thing, what is coming under pharma is already stated in pharma only and that is separate cost.

**Rohan Gupta:** But sir we had 5% to 10% of our revenues coming from pharma.

**Rajnish Sarna:** Rs. 443 million in revenue is coming from pharma.

- Rohan Gupta:** Rs. 44 crore, right? But that is only from the subsidiaries which you have acquired, right?
- Rajnish Sarna:** Yes. our subsidiary, PI Health Science, which is comprised of the entity that we have acquired in Europe, India and also in US.
- Rohan Gupta:** But PI standalone basis also had some pharma business, we understand 5% to 10% of the revenue used to come from pharma. Why is that not led to the pharma?
- Rajnish Sarna:** I do not know from where you got this number 10% from pharma! No, not at all.
- Moderator:** Thank you. Our next question is from the line of Naushad Chaudhary from Aditya Birla. Please go ahead.
- Naushad Chaudhary:** Firstly, follow up on the electronic chemical piece, which you indicated 4-5 molecules we are planning to commercialize. So, just wanted to understand in terms of the size of opportunity you see here in this piece of business and how big it can be for you in the next 3 to 4 years?
- Mayank Singhal:** Well, let me answer that. The electronic chemical business is just an entry point right now. There is not going to be a significant number in the PI, but in the next five years, we do believe in the growth potential of the specialty chemical, and also the fine chemical area, but electronics or semiconductors, specialized polymers which all going in the same application. So, we could see a few percentage points in that there.
- Naushad Chaudhary:** So, in five years can it be in terms of capital deployment, can it be as big as we currently have the CSM Agri and the plan which we have in pharma? Can it consume...?
- Rajnish Sarna:** Certainly not the same size as Agchem that we have because you will appreciate that our position in Agchem today is the work of last more than 25 years and investments made over this period. So, what is being said is that with our efforts in the last 3-4 years, we have already now got to a stage where we are commercializing several of these products, non Agchem products including electronic chemicals, specialty polymers etc. And this would surely become a reasonable percentage of our overall revenue, but this cannot be the same or it would be speculative to think that it will become of similar size as our Agchem business today. No, it will not.
- Naushad Chaudhary:** So, the capital deployment piece on the pharma business side, we had around Rs. 2000 crore of plan. We have deployed around 1000. So, pending 1000, any development on that?
- Rajnish Sarna:** Let me clarify here. First of all, the QIP funds of ~Rs. 2000 crore that we raised was not only for pharma acquisition but for several of our long-term strategic initiative projects including pharma, of course, for diversification into adjacencies e.g. pharma. For pharma, we have already allocated close to 900 crore as you mentioned. For the utilization of remaining funds, we are also looking at several opportunities including some of the bolt-on opportunities in pharma. We are also looking at other M&A opportunities in the space of Agchem domestically and also outside India. we are also looking at inorganic opportunities in other technological areas like biochemicals, BioSolutions and several other such opportunities, including brands, distribution etc. I hope this clarifies.
- Moderator:** Thank you. Our next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

- S Ramesh:** So, if you were to look at the Pharma Capital employed, is it possible to share what is the working capital in that piece and any accumulated losses? And secondly once you reach that normalized revenue of Rs. 515 crore, which is the kind of investments will require on both gross block and working capital and how do you see the growth in the revenues over the next 2 to 3 years and is there any clarity on the order size you can share with us now?
- Rajnish Sarna:** There are several questions in your question, but let me try and answer them one by one. So, yes, we indicated earlier that in the next 3-4 years we would surely want to more than double this business that we have acquired, that is one. And the investment details are already there in our presentation and also earlier release. And going forward, as we are scouting for more business and particularly for a better quality business. Of course, we will be making certain investments. We have already indicated close to \$10 million-\$12 million investment in the current financial year. Likewise, depending on the business opportunities, we will be deciding on further investments, but in a nutshell the overall idea is that we would surely want to, and we are internally committed to building this scalable differentiated business over the next 3-4 years' by making further investments.
- S Ramesh:** And the second thing is on the domestic market, there is a mention about 9% of your revenue coming from biological products. So, how do you see the domestic business performing and the normalized demand based on the new launches and what is the kind of aspiration for the share of biological products in your domestic portfolio?
- Rajnish Sarna:** Yes, Prashant, you can explain that.
- Prashant Hegde:** Biological products, as I said earlier as well, we have the plan to launch two products this year, one which we are launching in this month and one in quarter three. Definitely, there is good traction even though there are many products, especially generic type which we have seen some challenges, biological products are growing in double digit, and they will continue to grow. So, that is what we are estimating at this point of time.
- Moderator:** Thank you. Our next question is from the line of Krishan Parwani from JM Financial. Please go ahead.
- Krishan Parwani:** Just two small clarification from my side. First is, has there been any purchase order deferment in the ongoing quarter?
- Rajnish Sarna:** Not really.
- Krishan Parwani:** And then the second is since second half is usually strong for us, do you see that trend changing in any sort in this fiscal?
- Rajnish Sarna:** No. As explained earlier, so far, we have not seen any dramatic change in the demand scenario of the kind of products we are dealing in. But given the overall industry situation, we are also very cautiously monitoring the situation and in the next 3-4 months' time, we will have certainly much better visibility and we shall review our guideline post the second quarter.
- Moderator:** Thank you. Our next question is from the line of Rohan Vora from Purnartha Investment Advisors Private Limited. Please go ahead.

**Rohan Vora:** My first question is on working capital days. We have seen efficiencies in working capital days in this quarter. So, can we treat this as a norm? Is there a scope of still better working capital days or the days will go up from here on?

**Rajnish Sarna:** No, we certainly see some more opportunities for improving working capital in some of the business areas.

**Rohan Vora:** And sir my second question was on the horticulture business. So, just to get an idea about what would be the size of our market in that particular segment horticulture, the product that we are dealing?

**Rajnish Sarna:** Which segment you said?

**Rohan Vora:** Horticulture.

**Prashant Hegde:** Overall in terms of Agchem revenue, if I see what is contributing from horticulture, it is around 30%.

**Rohan Vora:** And what would be the size of the pie, just the market as a whole for the products that we are deal-in?

**Prashant Hegde:** So, it is the revenue which what the horticulture products which are contributing to our domestic revenue is around 30%.

**Rohan Vora:** I wanted an idea on the market if you can, just a ballpark number would fine.

**Rajnish Sarna:** Overall industry size.

**Prashant Hegde:** So, overall, if I look at what is contributing horticulture in the industry is somewhere around 25% to 30%. If you look at what is the Agchem market in India, around 25% is contributed by horticulture.

**Moderator:** Thank you. Ladies and gentlemen, our last question for the question-and-answer session is from the line of Yash Mehta from Steinberg Asset Management. Please go ahead.

**Yash Mehta:** The question is that now that you acquired and are currently in the middle of the integration, how have your thoughts evolved on the pharma piece? You have always maintained you wanted a differentiated model, but as we analyze the different businesses that are operating in this space, they are getting more and more similar to each other. Would you be able to share some light on this?

**Anil Jain:** If you see the entire value proposition right now, there are many CRO, CDMO players in the market and they are offering the services which includes discovery and manufacturing. At PI, we would cover end-to-end pipeline starting from the key starting material to API. This is complementing the PI legacy of complex chemistry, digitization and automated manufacturing environment of basic chemical manufacturing. With this, the current offering is filling the gap in the pharma value chain.

**Moderator:** Thank you. Ladies and gentlemen, which brings us to the end of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

**Rajnish Sarna:** Thank you, gentlemen, and ladies for joining this call and your continued interest in PI. Thank you so much. Have a good day.

**Moderator:** Thank you. On behalf of PI Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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