PI Industries Limited
Q1 FY22 Earnings Conference Call
August 02, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22 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 an operator by pressing '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you.

Nishid Solanki: Thank you. Good afternoon, everyone and thank you for joining us on PI Industries Q1 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; Dr. Raman Ramachandran -- Managing Director and CEO; Mr. Rajnish Sarna -- Joint Managing Director; Dr. K.V.S. Ram Rao -- Executive Director; and Mr. Manikantan Viswanathan – Chief Financial Officer.

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 I begin, I would like to underline that certain statements made on the conference call today may be forward-looking in nature. A disclaimer to this effect has been included in the Investor Presentation shared with you earlier and also available on the stock exchange website.

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

Mayank Singhal: Yes, thanks Nishid. Good afternoon everyone. I am very pleased to address you all and hope everyone and your families are keeping well and healthy in these challenging times.

PI has yet again has delivered a strong improvement in performance in the Q1 FY22 despite the significant COVID related challenges that we have been witnessing during this quarter. The revenue increased by 13% Y-o-Y, EBITDA rose by 8% Y-o-Y and PAT depicted growth of 29% over last year.

Now, coming to our Export business:

Export business has continued robust growth momentum with 31% Y-o-Y growth, we are looking at 6 new molecules to be commercialized in the coming year, where in addition to the capacities commissioned in previous year, we will be commissioning a new facility in the present quarter. The momentum of enquiries and order book build up has been encouraging, indicating a robust growth in the coming years from new commercialization. During the quarter, I am again pleased to share that we have initiated new relationships with new customers in agchem, electronic chemicals and other speciality chemical domains. Our existing portfolio has grown sizeable and continues to ramp up further in line with requirements of the innovator partners and higher throughput created by us through continuous CAPEX.

The domestic business, on the other hand, growth was subdued due to the combined high base of the previous year, had grown in the previous year by over 50% Y-o-Y, delayed onset of monsoon in the key cropping regions, deadly spread of the COVID--19 during the quarter, particularly in the rural areas which impacted the sentiment of farmers and distributor channels; however, the COVID situation has since improved, and with the monsoon forecast becoming normal, in the remaining period we should see an improvement in the demand in the quarters coming ahead. We have 3 new products lined up in Q2 within rice, cotton and horticulture portfolio. We have the strongest portfolio in horticulture in the country and are confident of driving the strong growth. We will see product transitioning to new packaging that add efficiency and enhance branding in the customer mindset.

The assimilation of Isagro domestic operations into Jivagro will comprehensively enhance our hold within India in the horticultural brands. In the upcoming season, we will see PI lend its experience base, innovation, agility onto the field through the application services offering where by design, we set out to address specific farming challenges. Further, such initiatives will incorporate novel technologies and methods of communication more deeply to deliver efficiencies of process and costs through our solutions.

It remains our stated objective to diversify our technology basket. The new research facility, which we are developing will further augment our efforts in this direction. I would like to share that we have made marked progress under our product research initiative as well as, where 2 prominent leads have emerged: one, being a novel fungicide, other being a novel broad-spectrum insecticide. We continue to plan alliances with global innovators in these initiatives, making PI one of the first in this arena in the Indian landscape.

Coming to other strategic initiatives:

I am very pleased to share that last week, our Board approved the acquisition of the API and Intermediates business of Ind-Swift Laboratories in line with our long-term objective for diversifying into adjacencies and build the next growth engines. This acquisition will help us to build a differentiated platform in the pharma value chain by combining technologies, product pipelines and leveraging the competencies in the complex chemistry and operational & commercial excellence, and expanding the global research through large innovator partnerships for designing solutions.

As you see, the specialty chemicals have emerged as high growth opportunity for Indian domestic companies. With this benefit of robust domestic consumption, large chemistry capabilities and favorable geopolitical scenarios, we will witness a growth momentum in the Indian industry which has significant potential to improve the market share in the global opportunity. PI's strategy and approach has matched client aspirations and the development of both our research prowess and manufacturing profile which is concurrent to the scaling up of a partnership with global innovators. This is inherited predictability for upside in our approach and we are in there for the long-term.

Our aspiration is to develop a diversified business mix to target much large global opportunities in the fine and specialty chemicals space with differentiating technological approach so that we can sustain the growth momentum for long periods of time. Proposed acquisition is the first significant step in this direction.

I have covered the key perspectives that I wanted to bring to you and I would like to invite our new CFO Mr. Manikantan Viswanathan, to lead the conversation with views on the delivered improvement in the financials. Mr. Mani comes to PI with experience in the fields of finance, having worked with groups like Reliance, Tata and large industrial groups and in general, we have extended our bandwidth for efficiency management of the growth journey of PI.

Thank you and over to you, Mani.

M Viswanathan: Thank you, Mayank. Good afternoon, everyone and thank you for joining the call today. I am personally delighted to join PI leadership team. Just to give my background, I am a chartered accountant with 35-years of experience across large conglomerates. Prior to this I was associated with Rossari Biotech Limited as their group CFO. With my exposure and experience, I am confident that I will be able to contribute and be part of the PI's growth journey. I would like to share financial highlights for the first quarter of the fiscal year 2021. All comparisons are on a year-on-year basis and consolidated.

In Q1 FY22 we registered 13% revenue growth at Rs.1,194 crore, driven by robust 31% expansion in exports, at Rs. 807 crores, supported by strong volume growth in key products. Domestic operations reported some moderation in performance due to higher base of the last year and delayed onset of monsoon. Domestic revenues stood at Rs. 387 crores in Q1 of FY22.

On the profitability front, gross margin increased by 1.7% supported by favorable products mix in the domestic operations. EBITDA enhanced by 8% to Rs. 252 crores translating to the EBITDA margin of 21%. Moderation in margin was a result of 26% increase in overhead costs relating to one-time expenses pertaining to COVID management as well as consulting fees and other costs pertaining to several strategic initiatives and projects. Profit after tax improved by 29% year-on-year to Rs. 187 crores led by reduced effective rate during this quarter.

Strong performance during the quarter further strengthened the balance sheet of our company. We generated operating cash flow of Rs. 250 crores in Q1 FY22. Further, we tactically increased our inventory position to cover ourselves in case of any supply disruption due to COVID. Overall surplus cash net of debt stood at Rs. 2,193 crores.

We look to fund the acquisitions of the API and intermediate business of Ind-Swift Laboratories Limited of Rs. 1,530 crores from the proceeds of completed QIP and internal accruals.

Let me also share some details about our capital expenditure:

Our CAPEX outlay for Q1 FY22 stood at Rs. 71 crore and we remain committed of spending close to Rs. 350 crores in the current fiscal year to support our growth momentum.

We remain positive on the robust outlook across our business of domestic as well as exports backed by solid visibility to support the momentum and now pharma, which we look to integrate this year, subject to fulfillment of customary closing conditions and regulatory approvals.

We would also wish to maintain our original guidance of 15% of revenue growth for FY22.

This concludes my opening remarks. Now, may I request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you very much, sir, ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: A couple of questions: One, considering the current acquisition that we have done which is closer to the northern part of India, while if I were to see the API and intermediate industry per se is largely situated in southern part of India, what kind of distinct advantage we are seeking while acquiring the business which is situated in northern part of India?

Rajnish Sarna: So, for us, primarily, the criteria for identifying a suitable target was based on the quality of assets that this company has, the kind of regulatory approvals, that this company has, the product portfolio, the pipeline of products in R&D and this kind of criteria not necessarily that location where this company is situated. So, we have found this after spending reasonably good time in evaluation of number of options that we were evaluating. We found that these criteria or these requirements that we had were getting met by this particular option and we were also kind of able to clearly assess that what kind of additional value that we can also create, what kind of synergies and additional values that we can create by combining our experience and portfolios and all and then we found all that getting met in this particular option and that has been the clear basis for our decision.

Nitin Gosar: Second question is pertaining to Ind-Swift acquisition. How does it fit in the long-term plan of us getting into pharma CRAMS kind of business? I believe Ind-Swift is largely still doing generic kind of business.

Rajnish Sarna: Yes, current model is generic products although they are in a leadership position in many of these products that they are dealing, but apart from that they also have relatively smaller CRAMS business piece and our idea is to gradually grow that business, look at opportunities that we have with PI in our pipeline and also exploit more opportunities that are in pipeline of ISLL in terms of CDMO. So yes, the longer-term objective will be to further grow and make that a sizable component of this overall business.

Nitin Gosar: If I were to understand, PI will provide the R&D related skill sets and Ind-Swift will provide the manufacturing platform, is this the best way to understand the acquisition?

Rajnish Sarna: ISLL also has their own R&D. There are more than 150 people, chemists, they have a very good set of R&D set up. Our point is that with our technological capabilities and our strength in R&D, we will further strengthen this overall R&D in pharma and expedite the pipeline that both the companies have. And in addition, they have good set of assets, more than 26-27 manufacturing blocks and other capabilities, but there also we can certainly leverage our operational excellence capabilities in large chemical plants and scale up. And by combining these capabilities we will be able to create much bigger value, that's the whole idea.

Mayank Singhal: If you were to look at the bucket, PI's strength is obviously in the capability to develop global business, develop concepts, in the areas of technology, chemistry and process capabilities, followed with the group compliance and regulatory framework, added with the requirements of pharma which obviously come well with the ISLL highly credited facility coming with all the regulatory approvals with no challenges on that front, good quality infrastructure. Having demonstrated credibility which already exists obviously the challenges come in the generic portfolio with certain pieces in CDMO, clearly, PI's competent leadership backed with the pharma knowledge ability that we've already accumulated with leadership in our organization and our technical capabilities we plan to combine these to lever to create a different level playing platform to differentiate ourselves in the pharma space in the next three to four years and that's really where things are moving in that direction. This is just a step to accelerate the process for us to make a larger impact in the pharma space.

Moderator: The next question is from the line of Utsav Mehta from Edelweiss Asset Management. Please go ahead.

Utsav Mehta: Two very quick questions: One is that Ind-Swift if you look at their current business, it's a business that's operating at extremely high working capital, almost 300-plus days, and very low asset turns as well. There is also an element if I'm not mistaken where I think promoter-related entities own almost Rs.290-300 crore of receivables to Ind-Swift. So, could you just provide some sense on whether this working capital can come down back to some levels at which PI currently operates? And does the acquisition value also include this Rs.300 crore to be returned back to Ind-Swift?

Rajnish Sarna: Thanks for the question. Yes, certainly, currently Ind-Swift is operating at a much higher working capital level. As we all know, they were passing through financial stress and they had their own reasons of operating at these levels. And obviously once PI acquires, will certainly be managing the business as per the normal working capital norms which is certainly anywhere between 25% and 30% around that and therefore we will certainly in a quick time be able to kind of bring down this working capital levels of this company to near optimal. In terms of our consideration, yes, there is a normal working capital which is part of this consideration that we have indicated. As usual, the acquisition size consists of the normal working capital which is certainly not this old doubtful debt for receivables or related party items, but yes, there is a normal working capital level which is part of the constitution.

Utsav Mehta: So, this money basically will be sort of considered written off when taking over the businesses, that's probably correct, right, this won't be transferred?

Rajnish Sarna: Yes.

Utsav Mehta: My second question is as you go about cleaning up some of this business, making it lower working capital, more profitable, do you believe that this Ind-Swift top line of

Rs.850 crore will need to be reduced and some of the more unprofitable business sort of need to be stopped before you can start growing the business again?

Rajnish Sarna: Whatever assessment that we have made obviously, we'll be making a more detailed assessment, but this is our assessment so far, we see a lot of unexploited opportunities to even grow their existing products, maybe not all products but many of their products there are unexploited growth fortunately which we will certainly kind of try and achieve by commercial excellence on one side. And on the other side, yes, we have also tried to articulate in our release that we will certainly strengthen this product portfolio by combining our own product pipeline that we have been able to build and identify over the last couple of years to our efforts in pharma space. So, by combining these two, yes, ultimately the business has to run as per the financial parameters and other strategic parameters, be it asset turns or working capital turns or improved margins and all and these are going to be obviously the clear guideline threshold for us to kind of grow this business from here.

Moderator: The next question is from the line of Abhijit Akella from IIFL Securities. Please go ahead.

Abhijit Akella: First, just a question on the CSM revenues this quarter. They seem to have fallen on a sequential basis to about Rs.800 crore compared to 1,000 crore Q4. So, any color you could shed on what's driving that and should we expect this to come back to the fourth quarter run rate starting next quarter?

Rajnish Sarna: CSM although not as seasonal as we see in domestic but still it is driven by the global season. So, it is not revenues are distributed equally across all the four quarters. There is a slight increase in the second half and particularly by the end of the year given the inventory plans, business plans of these customer companies. So, yes, if you see year-on-year growth, there is a decent growth, more than 30% and on year-on-year basis we expect to still achieve the growth in subsequent quarters, not necessarily on a sequential basis.

Abhijit Akella: Other thing was just on the guidance that we have provided 15%-plus growth guidance for fiscal '22, is that excluding the acquisition or how should we think about that?

Rajnish Sarna: Yes, that's exclude acquisition, I mean, this guideline was primarily for our organic growth.

Moderator: The next question is from the line of Ritesh Gupta from Kotak Securities. Please go ahead.

Ritesh Gupta: Just wanted to understand a bit in terms of how you see the opportunity in terms of your own pipeline, you have talked about your own pipeline, but let's say what kind of areas that you are focusing on, is it more on the intermediate side, is it more on the API which are turning generic in the near-term or let's say the focus is actually to go and cross-sell it more as we go about? The second question is just wanted to check on the CFO resignation. We have seen multiple resignations over the last six, seven years. So, could you just give us a sense on what's the thinking there and why there have been so many changes?

Mayank Singhal: On CFO front, obviously, the incumbent who was there had certain locational challenges and also with expansion of work so he decided to step down. And Mani, in any case was a part of the plan to join in which has now been inducted and so we are in that process.

Rajnish Sarna: Coming to your first question, currently I will not be in a position to give very specific answers which are the kind of products that are in pipeline and what kind of growth that we would expect from them, but yes, alongside the closing of this transaction, we shall certainly come back with every detailed commentary that what are the areas that we are focusing, which are the molecules or products both on intermediate side as well as on API side from the combined entity that we will target in next two to three years for scale up and to accelerate the revenue.

Mayank Singhal: So, if I have to answer that we look at two-pronged strategy, what is that new comes and obviously it has a gestation period and already as you know that some of the products that they already have strengthened, their leveraging capability, how do we strengthen them and bring in our technological capabilities to really take leadership position from a global level perspective. And that's the two-pronged strategies that we're working with in the short and long term.

Ritesh Gupta: I don't know if you've discussed this earlier in the first few minutes of the call, but you talked about two discovery stage molecules. So, what's the plan there, how close it is to commercialization, could it be many-many years ahead and you have also talked about the innovator partnership that you're looking at, so if you could just give us some sense there?

Mayank Singhal: I think there is a great pride of the company. Years and years, we've been doing investment in R&D. Today, the company has been able to come out with two new innovative molecules which can be globalized, the first Indian company to bring innovator knowledge to the world markets. Obviously, this is right now in the early stage of development and we again given that a partnership approach, I'm going to be looking at the co-development across the globe with global innovators and partners who could support in the development activities across the world and that's where we are. So, it's a good moment of pride again, a good show of PI's ability in this research capability at the global level in business back-ends.

Moderator: The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: So, the first question is again on the acquisition front. So, in terms of the business, how are we looking at the integration benefits over the next maybe two to three years and whether the same team will remain there, I mean, do we integrate the current team or there will be some team which will let go off because of the integration and spearhead the business and are there any performance related payments on the acquisition?

Mayank Singhal: That's a separate vertical. As you see, pharma things are there, that current team continues to build. Obviously, we will augment the team with more resources to develop the future strategies, as you know, the management which is owner-driven is stepping out, we already are in the process, we have already got some, we will be working to build the robust team to actually drive the business to the future. We very much will integrate the members in the team which are there, as a part of our plan.

Rajnish Sarna: And this business is getting acquired along with the existing team. So, they have some close to 1,500, 1,600 people on common basis and they'll be part of this acquisition. So, obviously they remain the part of this new entity and further strengthening will be done on different leadership levels to kind of drive the growth of this new entity.

Rohit Nagraj: Any sizable integration benefits that we are looking at?

Rajnish Sarna: Well, as I said to the earlier participant that we are in the process of kind of putting together. There are obviously initial assessments done but as part of this next couple of months exercise, we will be certainly kind of clearly defining these things and alongside closing we shall come out with more details.

Mayank Singhal: This is a different business, it does not have a lot of synergy with the existing approach as with pharma there is a different approach in the management. And further we are investing to grow this business and develop. The benefits would be more from learning capabilities which go beyond the larger general approach which we have here and investing in there to build that business up. I don't see much of integrated benefits, these are different verticals which will run in a different way because the business requirements are different, regardless of their management and then pharma and most of them from regulatory perspective too.

Rohit Nagraj: The second question is in terms of the QIP money. So, we have invested about Rs.1,500 crore in this acquisition and we are still left with about Rs.500 crore of money. So, are we looking at another inorganic opportunity in the future?

Rajnish Sarna: Yes, so we will continue to kind of keep looking and evaluating more opportunities on technology side even on other areas that we have identified for ourselves which are in line with our long-term strategies. So, yes, we'll keep evaluating looking at opportunities. Besides this we also have our organic growth plan. So, yes, we will be looking at overall cash kitty both QIP and our internal accruals for subsequent initiatives that we'll be taking.

Mayank Singhal: The initiative will be based on our strategic direction. Anything which is fitting our competence, capability to look at and in alignment we look and I think timing is critical based on where we are and what we're doing. So, growth is a very clearly defined objective and growing smart is the way of life for us. So, keeping those two in mind, this will always be a part of our plan.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: First question is on the acquisition. Philosophically I would say acquisition must meet three criteria; one, it must create value of the pool and its economics must make sense; second, the company to be acquired, we should be able to add value so that it's more than what we've acquired and third what has been acquired should be able to add a value to what we are doing in our existing business. So, if you agree with the framework, I would like to have a feedback as to how do you view this acquisition on these three parameters?

Mayank Singhal: That's a very good question and I think that's the right way of looking at things. But when I look at the last question you see there are certain characteristics which are there in pharma which come from different platforms which come into play from a competency building capability in terms of technology, non-chemistry-based thematic and others is something that we believe we will be acquiring and I think there's a crossover lever which would play there. Third, it is also opening a larger channel in the other part of the business. In the complementary sense, what we

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already know was chemistry in process. Fourth, it's a highly compliance regulated environment which PI is well versed with and works in that framework. So, hence for us to move up the value chain and handling that in the pharma is something we believe can be done well. Fifth, the growth path which we have been able to seek to be drawn is on my internal strategy which has been on the work before even looking at the acquisition we already had done. So, there is a synergy which comes which is again complementary back with our own capability in R&D. So, looking at these three, four pillars which integrates well, let's just make the right quick sense, make a step and then to say how we can find other things to make them jump. So, that's really where we are right now.

Bharat Shah: Which means we believe that what we are acquiring in making eminent economic and strategic sense it will add value to what we are doing and we'll be able to enhance value and therefore it will be like a triple win?

Mayank Singhal: Yes. As you rightly said, we're not looking this as a one plus one. We're looking at a bigger number to that, is equal to two, no, that's not the answer. And acquisition of business is just not only towards financial terms and conditions but also for acquiring competence and capability in technologies which become a multiplier, they may have a longer gestation. As you can see that today we've been able to evolve in the agrochemical business from mere generic producer to marketer to innovative product selling to custom manufacturing today to become an innovative company to generate new molecules at the global Level. And again, levered that with the partnerships by acquiring, building, and creating IP. That's really how we have gone about and the same kind of philosophy we are applying here but in a differentiated model in the pharma space where the canvas is big and the pharma world is more matured and open to such kind of platforms. That's really where we are targeting and expect that this will definitely give us more than one plus one to two.

Bharat Shah: Second question is on the human talent pool. I think we have gone into more advanced chemistry than before. We are more sophisticated customers than before and now we are adding more verticalization in pharma. And even in terms of the size, everything has come some way from where it was. In all this even the human capital which is at a core of what we do because we are not in a business with commodities chemicals, we are in the business of value creating activity and our ability to synergize our manpower plans, attract the right kind of talent of growth in the different areas, retain them and create sustained excellence in organization, what are the thoughts on that?

Mayank Singhal: I will answer one part and then maybe I will ask Raman to step in there. As a part of the strategy, we've already looked at, if I was to answer specifically right now we've already looked at accumulating talent in the pharma space, we already had the R&D, the HR leadership in place to do that, we are already in the process of looking at leads. Internally, we have Dr. KVS, other people who come very strong and are well versed at the pharma play, could be directionally giving and under them we will get the leaders to drive and do that business. On the other hand in the CSM we've been able to build those kind of verticals that are there. In the ag business, we've got the team leadership in place and now we're steering to the next step where we're working in a program where we're looking at creating the next operating model for multi-engine organization growth by putting the differentiating structure and putting them with the right skill sets and then aligning them to create a larger purpose of the organization to go to the next phase of growth. These are parts of steps of the changes as you go from one to the other, you need to plan and that's probably why you will see that there is really huge investment in the HR front which is reflected well in Q1, where you will see the cost go up because we've acquired talent, to go to the next phase, investing in that and then building the next team to go to these multi-engine large frameworks to work. So, clearly, this is a top priority in the organization driven at an objective level and it is actually in that manner and maybe Raman you can give a few more highlights what you're trying to do in that.

R. Ramachandran: So, clearly this is an area which has been very high focus in the last 12 to 18 months, knowing clearly that we are going into the adjacency of pharma, we are going to have technology as the core driver of both the pharma and the custom synthesis business. So, there are two approaches; one is identifying and developing internal talent and here we have external facilitators who are helping us to use formal well-tested tools to identify potential talents and also invest in them to really grow future leadership at multiple levels within the company. And, of course, then there is also a very clear strategy which is acquiring talent from outside in order to fill the gaps of new kind of skills and new competencies that the organization will need as we move into this growth journey which is technology based and then growing into adjacencies. So, that is in summary the approach. Just to reiterate, that tremendous amount of leadership time is spent on this and we are also seeking the efforts of the best of the outside the organization to help us in this process. The second part that Mayank alluded to which is a larger transformation that is happening, which looks into how the organization should be designed in future in order to not only grow the existing business, what we call, as the deliver the current agenda and develop the future agenda. So, those would be the two broad areas of addressing this very important talent need to drive the business at this very high growth rates.

Bharat Shah: Where do we stand in that journey as we look at within?

R. Ramachandran: Eighteen months ago we started the whole process of objective assessment of internal talent, so we've kind of assessed more than 300 internal talents identified, talents that can potentially have leadership ability and potentially have learnability where they can go and learn higher skills, etc., and we are now investing into developing them. The acquired talent strategy is something that's an ongoing process and you will probably see the results of that over the next maybe three to six months' time.

Moderator: The next question is from Ashish Naik from Axis Mutual Fund. Please go ahead.

Ashish Naik: Just wanted some bit of more clarity on the two novel molecules that we have highlighted in the presentation. A, in terms of the timelines, as we mentioned that we are in the development phase, so at what level are we looking to partner with potential innovators? And second, in terms of when you say that the potential market opportunity is big, which are the markets and segments that we are looking at and if possible, some level of understanding on the potential size of these molecules? Also, just one more question in general what is the strategy on novel molecules, are we going to keep developing more such molecules and if yes would it be largely related to agrochem?

Mayank Singhal: I will answer your last question first, yes, that's the core competency we built in the ag piece, which gives us the unique platform together on products and molecules. Each product comes with its own global landscape and play. Yes, the partnership approach is what is going to be applied in this case from a development purpose. In terms of time scale you could see some of these scale in four to five years before they hit the market. Yes, rather than the opportunity size this is more about the development activity, evaluation process, what segments, these are pretty fairly well-watched segments, as this was the first time we entered so we've taken a cautious call to where we want to play. The segments are present in very large geographies in the world. Right now we are under various evaluation stages and that's what we call the development phase and I think when you come to a more mature understanding of this over time of a few seasons across the globe when we get some results. And we are looking to partner, starting at this stage to the commercialization stages, where we start talking to partners for the purpose of partnership.

Ashish Naik: So, would it be fair to say that we will probably look at a partnership maybe if the commercialization is four years down the line, maybe after a year or so?

Mayank Singhal: Sure, somewhere around that. Some of these things you have to start dialogues, various evaluation processes, things work around. But the reality is that is the fun, it's a ten-year journey, we have only six years down it, another four years, we are happy that at least six years down the line we have babies which can actually become adults hopefully, right, first releasing the babies as I put in simple terms and now obviously we have to actually decide what are the best tools that after we put them together.

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

Sumant Kumar: Can you talk about the fine chemicals and other specialty chemicals opportunities? You have mentioned in the press release you have initiated relationship with a new customer.

Mayank Singhal: Clearly, as a focus in the fine chemicals area, we have to talk to a couple of customers and I'm happy to say that this quarter we have commercialized small batch production of these chemicals in the end area of applications, that's where we are. And this again is one step towards looking at another part of the canvas for growing your competencies while the skill sets are differentiated between, between pharma and ag, combined skills of those create a different play in that space from learning the ag and we've also entered that. So, over the next three to four years we'll anticipate learning them well, then as we look at scaling up the next journey.

Sumant Kumar: Can you talk about the domestic business for the outlook for coming quarters?

R. Ramachandran: Let me give you a very quick Q1 situation. So, the market in itself due to some delayed rain, there was some parts of the country where there was some delayed planting, in comparison to last year same quarter when the distribution channel out of fear of supply chain shortages due to COVID lockdown, etc., had a very high propensity to pre-purchase. This year we also found that that tendency to pre-purchase wasn't there. So, we believe in the first quarter the market probably was slightly flattish to maybe a low single digit growth. So, the two pieces of domestic business that we have, one, which is the PI distribution business and then the other one which is Jivagro which you also saw in the investor presentation, the new company, that focuses on the horticulture. So, the PI last year had a very-very high growth base, the first quarter the growth was almost about 34%, 35%, if I remember. So, on that basis the growth this year we had expected there would be pressures and as expected it kind of declined. But the Jivagro piece of the business actually did grow; it grew at a healthy 5%, 6%. So, overall, I think our strategy is working. In the second quarter we expect the business to come back because the monsoon has kind of widely spread now, the demand is starting to pick up, although the western part and cotton region still are suffering and if it does not rain in the next week or 10 days we believe there will be some spray slots that will be lost which will depress the market, but we are still very optimistic and in the second quarter we will also be launching three new products that also gives us some options or opportunities for growth. So, cautiously optimistic about the second quarter is what I would say.

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

Ankur Periwal: First question, on the CAPEX side. So, our order book still stands at a healthy $1.5 billion plus while the CAPEX number that we are starting for is INR3.5-odd billion. Going back to our earlier comments probably a couple of quarters back wherein we did mention the thrust and focus on the tech-led initiatives which can drive a higher asset turn there? So, is it because of that the CAPEX is slightly lower and your thoughts there?

Mayank Singhal: I think when you look at the CAPEX, it's not linear as I would say to revenue because as we are sitting at the lower end of the commodity side of the market and we enter multiple step high value. On the third area, as you would have seen PI's own ability from a process technology capability. Our teams have been working extensively to look at how we improve efficiency throughout and creating more white space and I must commend the team that has done a very good job over the last couple of years to create white space in the existing assets while reducing the CAPEX and improving the asset efficiency. That is something which is starkly visible as you can see and will continue to get better. So, it's not linear in nature and we believe that how we're going to deploy less capital for more efficiency, that's going to be the philosophy, one, the technological and capability point of view, investments point of view, third, by finding the right asset revenue mix play, fourth, they're not linear in terms of the asset requirement to the revenue play.

Ankur Periwal: So, directionally we should look at a higher asset turn on the current existing base as well, would that be a right understanding?

Mayank Singhal: Because the investments, yes and also, there'll be investments which are going on in the R&D phase as we would say. So, that could be the different way of looking at it, right.

Ankur Periwal: Just a second question on the pharma update. I know you alluded to it earlier in the comment as well, but from a portfolio perspective, now on the agri piece, we are largely on the innovator side, on the pharma piece as of now we are slightly more towards generic and hence probably higher working capital and lower asset turn, margin profile, etc., What timeframe do you think one should look at from rejigging of this pharma piece and ramping it up to PI standards there?

Mayank Singhal: If I look at it, one is taking in what it is, making sure it gets into a steady state and run. So, from time to that I would look at 18 months because there's a lot that need to be done to make sure it is something that we said. Obviously, parallelly, we'll be working on the next level of play and I would say the next 24 months we should have a clear picture of the way forward. That's the steps which will start to show up in two years basically what I've said 24 months impact which has been created by PI.

Moderator: The next question is from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: My question is around the Ind-Swift acquisition. So, the last five years the growth of the company has been about five, six, seven CAGR and if you look at asset turns it has been relatively lower. The question is in the current phase if you look at the CAPEX the intensity in the last five years has been coming down. So, what is the current utilization level? If you have to break the next phase of growth, into the growth in the existing business and the new line of business, so do you have some kind of line up wise and what kind of potential growth be in the existing business because maybe the capital commitment was relatively lower than required, so if you can even break up the expected growth in the current molecules do you see what is the potential of growth and what is the kind of growth that hinges on future success?

Dr. K.V.S. Ram Rao: As pointed out earlier in the discussion, our endeavor is to first make sure that we have stabilized the entire product pipeline commercially and also from technology perspective, that's the first effort that we are looking at. And the second one is to really bring in the expertise of science, innovation and technology of PI and see how this can be leveraged into ISLL. And through that we will be able to step up the science, innovation, and technology engine in a way where it will come to the PI level and starts adding value to this whole acquisition. I think that's how I look at it.

Mayank Singhal: I think there's a question about the revenue growth rates and change in inventory, that’s how we're going to do that.

Dr. K.V.S. Ram Rao: So, these two things in my opinion should aid in the revenue growth and the way we see the pharma piece that is getting added up from the pipeline of PI. So, I think there are three elements which I want to put it across which should aid us in the revenue line; one is the commercial excellence piece that we want to bring in through the product pipeline; second one is the way we are looking at the entire pharma pipeline of PI together. I think that's what I envisage right now when I'm looking at synergy integration of PI capabilities and ISLL.

Moderator: Ladies and gentlemen we take the last question from the line of Amar Maurya from Alf Accurate Advisors. Please go ahead.

Amar Mourya: I have two questions: Number one is what is the current utilization in case of Ind-Swift? And secondly, a ballpark, at a Rs.1,500 crore of investment which we did, when we can expect and what kind of peak revenue we expect from this piece given that new investments will be just done for the maintenance? The current ROCE is around 3% based on the current acquisition. So, when we expect this ROCE to reach at least to the company level ROCE?

Rajnish Sarna: First question, current capacity utilization level is anywhere between 70% to 75% for different production blocks. Coming to the second part of your question, well, as I mentioned that we will come up with maybe more detailed plans, projections alongside the closure of this transaction. In terms of return on capital or these kind of financial parameters as we have already mentioned and explained in past that over a period of time our objective would be to kind of improve our overall ROCE and ROE of the PI and therefore you can imagine that we'll be projecting to improve significant improvement in the current levels of these returns and that will happen both ways, while on one side, we will work on growing the revenue, improving the quality of revenue, and on the other side, we will also be working to significantly optimize the working capital levels, asset turns and those kind of initiatives so that the outcome is in alignment to our general return that we have at PI.

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

Mayank Singhal: Yes, thank you everybody for coming on to this call today and we will continue to look forward for your continued support and you may please get in touch with our IR team if any questions that you may have and wishing you all a very safe times ahead to you and your family. Thank you.

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