PI Industries Limited
Q3 FY22 Earnings Conference Call
February 4, 2022

Moderator: Ladies and gentlemen good day, and welcome to the Q3 FY22 earnings conference call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0"on your touchtone telephone. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on PI Industries' Q3 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 and Mr. Manikantan Viswanathan, Chief Financial Officer. We also have with us Mr. Prashant Hegde, CEO of Domestic Agri Inputs and Dr. Atul Gupta, CEO of 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 may be forward-looking in nature and a 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: Welcome everyone and thank you for your participation today. I wish you all a very Happy 2022. I hope that the Omicron challenge is receding and we are grateful to our frontline workers for their efforts during the pandemic.

I am pleased to inform that PI has achieved all-time high revenue and EBITDA during the quarter, with revenue growth coming at 17%, while EBITDA growing by 8%. PAT rose by 14%. This expansion came in despite high base of last year, both in domestic as well as exports and rising trend of input costs. Domestic growth was at 8%, while exports grew by robust 19% in the quarter under review.

PI stands at the frontier of leading-edge technologies and complex chemistries. Our teams are engaged in discovering better and more efficient pathways to commercialize molecules for a global arena. Innovators across the world acknowledge this, with the number of enquiries from existing and potential clients rising markedly.

Traction in new enquiries continued with significant number of enquiries coming from the non-agchem space and we have acquired 8 new customers during the nine-months period. There is a rich pipeline of more than 40 products at different scale-up stages, out of which more than 20% are non-agchem products. We are targeting to commercialize 3 new molecules in Q4 of this year in addition to 4 molecules already commercialised by December 2021. We have commissioned a new complex chemistry building block for 'MMH'. This is an extremely complex chemistry that has been scaled up for production and our team is one of the few globally who have been building this production capability.

Our domestic performance for the quarter was driven by favorable agro-climatics in rabi, supported by price hikes effected for key products. We undertook successful launch of one new insecticide for rice and two specialty fungicide focused on horticulture and rice. We have also successfully launched no. of new brands in the horticulture segment under Jivagro which continues to enjoy strong salience with our key products positioning well as category leaders. Moreover, we have 15 to 18 products at different stages of development and registration. The idea is to further strengthen our market line up in the coming period. Some of our recent novel introductions continues to perform ahead of expectations.

- I am happy to report that Awkira our wheat herbicide continues to grow from strength to strength and its treated acreage has increased 3-fold to around 7 lakh acres. In fact, with Awkira, we are changing farmer behaviour from a Post to Pre-emergent herbicide usage
- PB Knot is another sustainable solution, from our portfolio of products, to address the pink bollworm menace affecting cotton crops. PB Knot is India's first Pheromone based insecticide. We are now covering over 1 lakh acres across 5 states with PB Knot
- We have made strong foray into speciality fungicide with biological origin with our product Armatura for grapes. This innovative product is safe to use for preventive disease management. We are encouraged by the testimonials from our grape farmers who find that Armatura application not only cures powdery mildew disease but find that it enhances quality in terms of lustre and shine

We continue to strengthen our marketing approach, supporting an already strong line-up of brands. Working in close coordination with specialists, dedicated personnel are helping farmers enhance productivities through better usage of technology and modern best practices.

Our business outlook remains robust, and we are confident of achieving our original growth guidelines for current fiscal. I would also like to highlight that we have refreshed PI's Compass to set a clear direction and mission for future growth. With the Purpose of 'Reimagining a healthier planet', our Vision is to 'Lead with science, technology and human ingenuity to address latent nutrition and health needs of the planet'. We are aligning the entire organization across different levels with "PI's Compass".

Diversification into adjacencies through Inorganic route remains our top agenda apart from technology scale-ups. We are evaluating various M&A opportunities both in India and outside India to zero down on few that will meet our objective of creating a sustainable and differentiated value proposition. We have elevated seasoned homegrown leaders both in CSM and Domestic business. This rewards long term business contribution and also helps to drive a culture of meritocracy across all levels.

Last but not the least, we are proud of our industry and customer accolades. As announced earlier, PI emerged as one of the top quintile companies in our very first S&P Global Corporate Sustainability Assessment (CSA) with 82% percentile industry ranking. This ranking with our 'Gold Star Rating' with 96th percentile ranking of Eco Vardis and high scores under independent 'Together for Sustainability' (TfS) assessment by global customers clearly demonstrate our focus on ESG.

The budget speech by Hon'ble Finance Minister on 1st February, 2022 unleashed a series of programs for benefit of the Agriculture and the Chemicals Export sectors. We believe these long-term policy initiatives by Govt of India shall further boost opportunities in Indian agriculture, agri inputs and specialty chemical manufacturing in India and help companies such as PI in their future growth momentum.

With that, let me thank all the stakeholders for their contributions this quarter. I wish you good health and to stay safe. I would now like to hand over the call to our CFO, Mr. Manikantan to share key highlights of our financial performance.

M Viswanathan: Thank you, Mr. Singhal. Good afternoon, everyone, and thank you for joining us on the call today. I will be summarizing the financial highlights of the company for the third quarter ended 31st December 2021. Please note that all comparison is on a year-on-year basis and refer to consolidated performance.

During Q3 FY22, we reported all-time high revenue of Rs. 1,356 crore, a growth of 17% over the same period last year. This was driven by solid growth in export revenues by 19% to Rs. 1,076 crore and 8% gain in domestic revenues to Rs. 280 crore. I would like to highlight here that we have grown on a high base of last year, where domestic revenues grew by 26% and export revenues increased by 40% in Q3 FY21 over the previous period, year-on-year.

The trend of elevated inputs cost continued during the quarter. Although we had effected partial pass through by increasing product prices, both in exports as well as in domestic markets. Full impact of price hikes will be reflected in the coming quarters.

Our gross margin contracted by 49 basis points in Q3 FY22 to 46% due to lower export incentive and partial cost pass through among others which negated the impact of favorable product hikes.

EBITDA increased by 8% to record Rs. 297 crore. The margin moderation came in due to increased overheads by 24%, mainly attributed to sharp increase and fewer other related utilities costs, logistics costs, and one-off expenses pertaining to strategic initiatives. These one-off expenses are non-recurring in nature and we expect our price hike to partially mitigate the cost increase in the coming quarters.

Profit after tax improved by 14% to Rs. 223 crore in line with our planned effective tax rate. Our balance sheet further strengthened during the quarter. Net sales to

Fixed Assets ratio improved to 2.07 from 1.89 in March 2021, while total CAPEX for YTM FY22 periods to that of Rs. 228 crore.

Inventory level was maintained at the similar levels of the last quarter to avoid supply chain disruption and meet customers supply schedules and continued operations. Company maintained its strong liquidity position with surplus cash net of debt to Rs. 2,078 crore, including QIP proceeds.

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

Moderator: Thank you very much, sir. We will take our first question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Yes. Thanks for the opportunity. First question on the CSM side, decent growth given the high base as well on a year-on-year basis. But please correct me if I'm wrong, probably this will be the highest new product launch for us in this financial year and considering the new client adds, which you highlighted as well. Your thoughts on the incremental growth, maybe from a medium-term perspective. How should we look at that number?

Mayank Singhal: Yes, so thanks. I think when we start looking at the business, since you are already at a high base and looking at the growth what is the good part is we've seen a lot of positivity coming in terms of the demand cycle in this area. As you can see in the coming year clearly, we will be further looking to enhance our capacities in terms of both by adding capacity in the existing facilities, and also going ahead to probably start building the base for another MPP. We see a positive project trajectory in terms of demand, both in terms of the existing business, in terms of new businesses which are coming. So, PI's approach was always ahead, investing ahead of time is something that is probably going to drive our investment going into next year, which should give a good trajectory going into the future. As you would appreciate that we are always focusing on new generation products. We are seeing some of the new AI's getting concluded in the demand cycle in our commercialization initial phase, which obviously would ramp up with time to come.

Ankur Periwal: Sure. And just a follow up there. These new product launches both for let's say, YTD FY22 as well as what we saw in FY21. What should be the ideal timeframe for them to see a scale up there? As in, these will be contributing significantly to FY23 revenues or FY24?

Mayank Singhal: Yes. As you know that new products will take usually three to five years before they tap maturity and some of them are interesting. We are also in the area of the electronic chemicals as we've diversified our activities into different biochemical areas. So the maturity of these would be probably longer than five years but yes, you would see a substantial volume in three to five years.

Ankur Periwal: Sure. My second question on the working capital side. I take your point in terms of higher working capital because of the inventory side, but even the receivables saw slight uptick there. Should we read too much into it? because the receivables days have been steady at around 70-odd days since last couple of quarters. What could be a number there to watch out for?

Mayank Singhal: I think that's a pretty steady number to watch but if I was to look at the area, it's an improvement over last year, as you would see. But obviously, inventory cycles are high and that also goes to say, which achieves our objective with customer satisfaction. We have been able to deliver more than 98% of our demands to our customers on time, even with the challenges of COVID over the last two years, and supply chain disruptions. So, the inventory management optimization is done in a way to make sure that you can continue to smoothly supply product to your customer, while augmenting the capacities. This could last another year. This could be a challenging play but internally, the company is also looking on how do we optimize our products. That's the approach this organization is taking.

Ankur Periwal: Sure. My question was more specifically on the receivable side. We were at around 80-85 days earlier, and we have seen that number coming down to around 60 to 70 days. But in the nine months, we are going back to that 70-plus days on the receivable side. So is that the new number, new normal that we should consider?

M Viswanathan: Yes. I just wanted to clarify; last year DSO was around 69 odd days on 31st of December '20. Right now, we are at 71 days. This is where we are, as explained. And going forward obviously, these things slightly fluctuate, but it will be in the same level of 69 to 70 days.

Ankur Periwal: Okay. Fair enough. Thank you and all the best. Thanks.

Mayank Singhal: The other factor there, on a blended basis, is some change in the business composition. So because the blended revenue is export and domestic and as you know that the receivable cycle in exports is shorter than the domestic. Now, since the share of exports is more in the current year vis-a-vis last year, you see this change.

Ankur Periwal: Sure. Makes sense, Mr. Singhal. Yes, thanks a lot for that. Thank you.

Moderator: Thank you. We will take our next question from the line of Bhavesh Jain from Kotak Investments. Please go ahead.

Bhavesh Jain: Thank you for giving this opportunity. First question on agchem CSM, how do we see the growth over medium to long term, considering few of our molecules are going off record over next two to three years?

Mayank Singhal: So, I mean, obviously there has been a certain challenge that regulates the area for getting new registrations, as you would see, PI will be launching four new products in the coming years. Are you talking about CSM or are you talking about AgChem?

Bhavesh Jain: I am talking about CSM exports.

Mayank Singhal: Okay. So, see, generic or non-generic, you will see the contract manufacturing business is always working on the area for cost benefit arbitrage. So, there is no pressure but there's a manufacturing cost which could be driven from that. On the other hand, as genericization happens and you would have seen that for any molecule. The key molecule inventor continues to hold premium market share and price, and continue to grow the market share. So, we see this not as a pressure at least in the next three to four, five years. They prefer these molecules because the genericization cycle in some of the geographies in time, and some of the geographies which are coming are also offered data protection which further continues to do that. On the other hand, our own ability with experience in terms of cost efficiency at 10 to 15 years of these molecule experience in manufacturing, I am pretty confident that we have the best cost structures in the world in some of these products and we continue to work ahead.

Bhavesh Jain: Okay. And the second question on Pharma CSM, are we actively looking for more opportunities? And whether we can build this business organically and scale up much faster or inorganic will be an imperative to scale up Pharma CSM much faster?

Mayank Singhal: So, definitely we are looking, there is no question on that. I think now the hunger is much bigger because we need to catch up with time. So, we will be looking at this place in both organic and inorganic. On the other hand, I must mention that, while we will continue to invest, to look at the areas with inorganic opportunity, as we have got a team with dedicated resources in building our R&D capabilities further in terms of the infrastructure, which will be worth on certain identified products, which are the non-GMP space. And on the other hand, we should be also augmenting one of the existing assets to do Pharma intermediates in this coming year, so that we continue to do organic, but as you would appreciate, we want to do something substantial and pretty quick. Organic, the pace is the way it is, which is continuing but the inorganic action is what we want to accelerate the process, and more so get closer to the opportunity that we're trying to achieve. What we are trying to do earlier, but past this stage without losing the time dimension, we're looking at opportunities in that line.

Bhavesh Jain: Okay, I have more questions, I will come back in queue. Thank you. Thanks a lot.

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

Vishnu Kumar: Good afternoon, and thanks for your time. On the Pharma inorganic acquisition, would there be an outer timeline by which we can expect you to close something like two quarters, three quarters? Is there something in outer timeline that at least you can give us?

Mayank Singhal: I said, we would like to move this as soon as possible. So obviously, we're looking on an aggressive pace and we would like to have something moving in the next few quarters for sure.

Vishnu Kumar: Got it. And just wanted to get some thoughts on MMH and some non-agro product that we are looking into. Firstly, on MMH, wanted to understand what is the opportunity? What is the growth potential? If you could give us some insights on it. And secondly, on the non-agro products, when we are scaling up, would it require additional CAPEX or how should we look at the CAPEX and growth trajectory on this side?

Mayank Singhal: You see MMH in any case is a backward integration strategy. We are also looking at certain core intermediate blocks, which is further giving us the cost arbitrage and a risk mitigation plan, backed with the opportunity to have certain revenues within the intermediate blocks. But the interesting factor is that it is unique in kind in terms of the molecule, the process technology that is being worked as a combination of flow and back. So, it gives us new capability enhancement of dealing with hazardous products and science.

Obviously, the CAPEX, you know we have put some aggressive capital over the last two years. And as you have seen we have also looked at 15% to 20% capacity enhancements at operational excellence and efficiency. The footprint of this is 30% bigger size than any other MPP. So this revenue growth plan is going to be driven by that. But looking at what we see coming in, we are looking at two prompt investments which will probably come to you post next quarter as budgeted which will now get approved that we are looking to further get into putting up another MPP, and on the other hand, we are also looking to augment one of our assets and upgrade it to the Pharma intermediate space so that we have the organic play which we have planned to do into operation by the end of the year.

Vishnu Kumar: Understood. This Pharma, organically, what is it, the revenue potential that we could possibly reach by next year or maybe one or two years that we are currently working on?

Mayank Singhal: So that will be too early for me to comment. We are at different stages of valuation, right. So, we are maturing and working on this. We will come back with better understanding in the next couple of quarters.

Vishnu Kumar: Got it. Thank you.

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

Rohit Nagraj: Yes, thanks for the opportunity. You have mentioned that you have partially passed on the price increases. Now, given the cost pressures that currently we are facing, we will be passing it on in Q4 as well. But in case of retreating of the input prices, what generally happens, because there is a lag in terms of passing on the prices as input cost increases. But whenever the input cost again decrease, then how does it work for us? Thank you.

Mayank Singhal: Well, it's the same cycle no, it works one way or the other way. But typically, we have the inventories in time to which these orders are committed. So that's less of an impact than the input, so that kind of works up in the same way.

Rohit Nagraj: Right. So generally, it is about three months in terms of the lag effect that comes into play, on either side?

Mayank Singhal: It takes, yes, it’s going to depend on the product and offers, yes, quarter or so. Depends, and also depends on the inventory levels. Yes, typically that’s the average time you can look at.

Rohit Nagraj: Alright. Thanks. My second question is on the balance sheet. So we have borrowings of close to about Rs. 300 crore. And we have cash surplus of about Rs. 2,300 crore. So any specific reason to keep those borrowings on the books?

M Viswanathan: Yes. It's on ECB, which we have taken up, couple of years back, that is with an average maturity of five years. It's continuing in the books. It’s beneficial comparing the rate at which we have taken at that time. So we also evaluated the same thing and find that it is worth to keep the ECB on our books

Rohit Nagraj: Right. Got it. Thanks a lot and best of luck.

Moderator: Thank you. We will take our next question from the line of Madanagopal Ramu from Sundaram Alternates Limited. Please go ahead.

Madanagopal Ramu: Good afternoon and congratulations for a very good show on the CSM business. You mentioned on the MMH capability coming in, if I understand, it is going to help us to become more cost competitive for scaling up the existing products. Or is it improving our capability to say synthesize more new molecules?

Mayank Singhal: It does both, to be honest.

Madanagopal Ramu: Okay. So, benefits of this are likely to come in over the medium term or we have to wait for four to five years?

Mayank Singhal: This is not going to give us revenue of MMH. We are looking to get revenue for the products that we have in the pipeline.

Madanagopal Ramu: Yes, that's what I am asking. So, the molecules already commercialized, we'll see the benefits of this coming through.

Mayank Singhal: Some of them, yes.

Rajnish Sarna: Apart from costs, this also de-risks the availability of material on time because so far this was being imported mainly from China. And as you know, given the current scenario, which is a strategic move to de-risk from that source.

Madanagopal Ramu: Okay. And the second question I had was, you also mentioned about the flow of chemistry getting commercialized. Can you elaborate a bit on what that would enable us in terms of scaling up the existing molecules?

Mayank Singhal: Flow of chemistry, pardon?

Madanagopal Ramu: You also mentioned about the flow chemistry getting commissioned, commercialized this year. What kind of advantages that will throw us?

Mayank Singhal: Yes, the flow chemistry is the capability development. It is a capability development the organization did when we look at the asset structures in a different way and we have and we will be commercially looking to commercialize one of these areas. That will give us the confidence to look at a different way to get return on assets with time.

Rajnish Sarna: So, basically, this will help in two ways. One is that this will domestically reduce the plant footprint, which means that the capital efficiency, which is the key long term objective of ours in this business, that will be gradually achieved. And then, apart from capital efficiency I mean, even the cost of production improvement, cycle improvement, all those benefits and safety, will be achieved.

Madanagopal Ramu: Basically, it leads to enhancement of capacity in the existing facilities.

Rajnish Sarna: Capacity, cost efficiency and also safety. All three, four of them this year.

Madanagopal Ramu: Okay. Can you focus on the CAPEX for the current year and also what kind of CAPEX budgeted for the next year? If you can guide us on that.

M Viswanathan: We have a CAPEX of Rs. 228 crore done up till now and we expect, as we spoke in the last quarter call, around Rs. 300 crore to Rs. 350 crore would be the CAPEX for this year.

Madanagopal Ramu: Okay. Thank you so much.

Rajnish Sarna: And next year CAPEX plans are still in discussions, we'll be working because there are several factors including the pipeline, including some of the new opportunities that we are evaluating. So the finalization of next year CAPEX will only happen by end of this quarter or something.

Madanagopal Ramu: Sure. Thank you.

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

Aditya Jhawar: Yes, thanks for the opportunity. Congrats for reporting strong growth in CSM. The question on CAPEX got partly answered. But one thing, just wanted to understand that organically for us, if we have to think about CAPEX for FY23-24, in the order of magnitude, could it be 20%-30%, higher or much higher than that? Any broad sense on CAPEX for FY23-24?

Mayank Singhal: Yes, if you want to look at in that way but at the same time, I want to highlight that we also work on technologies to improve asset utilization, as you've already seen this year. We have other plans to do that, followed if you're putting some of the floor areas that will work. So that is why I think, what Rajnish mentioned earlier, we're still looking at the technology and balancing between risk and rewards and putting up the CAPEX plan. But clearly, we see a positive trajectory in looking at CAPEX, because we are seeing project trajectory in demand.

And as you would appreciate, that over the last two years, we had aggressively put in CAPEX because you have typical ability from building capacity before demands, so I think that's what's supporting us through this process.

Aditya Jhawar: Yes. That's encouraging to hear. So, broadly, if we can get a sense that what is the line of sight of improvement in asset turns that we can expect in the next two years, so many projects that we are doing, how much upside we can see from the asset turns from current the next two years?

Mayank Singhal: This is again a chicken-and-egg story to be very honest, right now, because one side if we are getting inquiries for something in this business, you can't build an asset just for the revenue. We'll have to build capacity based on the three-to-four-year visibility, right?

Aditya Jhawar: Yes.

Mayank Singhal: So, the investments sometimes go upfront when we get those peaks and troughs but obviously, the objective is to improve this efficiency. But in the next two years, looking at what we see in terms of surge in demand into the capacities we may build, I would say margin improvement or not something substantial to be really taken down.

Aditya Jhawar: Yes.

Rajnish Sarna: We have seen some improvement in this year, this quarter also, as you've seen and we are confident that while, yes, on both sides, on one side, commercialization of new projects is happening, building of new capacity will also happen. And on the other side, we are also implementing some of these technologies to improve the efficiency, plant efficiency, throughput. So, combined impact will come, difficult to quantify that as of now, but the direction is very clear. The capital efficiency is gradually going to improve.

Aditya Jhawar: The final question, if we have to break the current CAPEX, that is about for FY22, that is about Rs. 350 crore into the maintenance CAPEX, the CAPEX for backward integration and crude CAPEX, roughly what could be the breakup?

M Viswanathan: I don't have it readily available and I have to come back, but normally we don't give such break up on the CAPEX front.

Aditya Jhawar: Fair enough. Just one part if you can give, what could be the CAPEX for the backward integration; that would be sufficient.

Rajnish Sarna: Yes, that is not significant because some part has already come earlier, some part has come within this quarter. So, I think not more than Rs. 60 -70 crores.

Aditya Jhawar: Rs. 70 crore for FY22.

Rajnish Sarna: Yes.

Aditya Jhawar: Okay. Thanks a lot. All the best.

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

Abhijit Akella: Yes, good afternoon. Thank you so much for taking my questions. Just a couple of clarifications. One is, if it's possible to share the Isagro export revenues for this quarter, and for the nine months. That would be helpful. Thanks.

Rajnish Sarna: Mani, you would have that or you will share both separately?

M Viswanathan: Agro export revenues, we will share separately.

Abhijit Akella: Okay. Thank you. The other thing was, just to confirm that we've talked about this 20% CSM growth target for the next few years with good visibility. So, are we still on track for that? And on the domestic side, what kind of growth should we expect for next year? And also, if you could just comment on the margins. Is it possible that we could see a recovery next year after low base of this year?

Mayank Singhal: Yes, as we projected the growth rates are looking to be in the same direction. And obviously, we will capture the growth rate as we expect it to do, far better than what we've done based on the launches of products, the new products coming to the registration, we see a good year going forward.

Abhijit Akella: Thank you. One last thing. Ind-Swift, sometime back in December put out an announcement saying that apparently PI has approached the arbitrary, the commercial court at Gurugram for some kind of arbitration and conciliation. So, if you could just confirm whether that is the case, and what is the update on that, and what do we plan for that discussion going forward.

Rajnish Sarna: Yes, Abhijit since the matter is subjudice, I think it will not be correct on my part to put any commentary around it, but, yes, some proceedings are happening on that side.

Abhijit Akella: So, the idea is, that we're still sort of trying to see if a deal can happen there. Is that the thought process behind that?

Rajnish Sarna: No. This is what I said, Abhijit, that since the matter is still subjudice and there are certain proceedings, legal initiatives taken by us, so, I think it is not correct on our part to put lot of details and commentary here on the call.

Abhijit Akella: Understood. Yes, thank you so much. I'll come back.

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

Bharat Shah: Yes. Two questions. One, on talent management, retention, nurturing and growth. What are the thoughts, strategies and ideas we have seen over the period of time, a recurrent separation of talent time-to-time?

Mayank Singhal: Yes, so, as you've seen that we have just now put the whole strategy of development, that was our agenda for putting a new purpose and vision strategy to put the whole talent map together. Clearly, as an organization, we are looking at the objectives that needs to be achieved, it looks like talent and talent management approaches in line to that. As you would have seen, certain talent that was acquired in order to help and augment the organization to grow and move to the next level. Generally, we've been able to develop the new talent, which has come and shaped the leadership of the leaders today, having marked experience to drive the future statistics growth. And as a constant drive, we have taken many initiatives in this area and we are continuing to grow in house talents, in line to the competence and capabilities required for the future growth, as which has been defined and described by our new operating business model.

Bharat Shah: So, are we happy about our initiatives or is it a source of concern given a fair number of departures that we have seen?

Mayank Singhal: Well, I'm not sure that what level of departures that you are talking because some have been retired, some have moved on. And we have enough talent in house which is taken up charge and shape which was developed, which is there. So, if I still look at the data points, PI's attrition rates are far lower than the industry averages which are being placed into this growth opportunity that industry is operating.

But at the same time, we are looking to always, this today's world is a little different, world of the youngsters, so the point is that we are working on a strategy where we have well mitigated risk from talent by developing talent internally. And most of these positions and growth rates have been taken internally, and we continue to invest in building talent and acquiring certain talent back in alignment to the strategies of business areas that we want to focus for our growth.

Bharat Shah: Okay. My second question is going back into the past and projections for the future. So four years back when we were discussing, we were saying that in five years' time, we should be a billion-dollar business and capital efficiency to be in the 30s return on capital employed. A billion dollar four years back meant about Rs. 6,800 crore or thereabout. So are we on the way next year to be around that ambition and on capital efficiency objective of say 30s rather than 20s? And corollary to that, if we have to thereafter think of our business, whether in three years, four years or five years' time, we believe, given the initiatives, given the client engagements, new chemistries and our product offering basket, are we likely to see the business doubling, whether three years thereafter, four years, five years back?

Mayank Singhal: So that's a good question. We're not an organization that likes to be at sleep, we want to grow at an aggressive pace. And clearly, yes, we want to deliver that and pretty confident that given the energy, the drives of the team internally, and passion to grow in the areas of our competencies, the areas of technology, more importantly anchored with the ESG framework and sustainability. We don't see these kinds of challenges, obviously, but both organic and organic, to achieve the objectives that we have set out for ourselves. And we will continue to do that.

Obviously, if you look at what we did today, if you didn't have one of the M&A Act it wouldn't be well there in that number. But we're looking for another opportunities. So what stops us is to not get into that number, which we set ourselves up to achieve. And what we are looking to do the next four to five years, we would like to be more aggressive in order to get to this place faster. And that's why we're building the organisational resources. So, we've already deployed a large number of resources in the areas of growth opportunity and interpretation.

Bharat Shah: The reason why I'm asking this question is, opportunity probably has never been better, for India in general and more specifically for PI, given the kind of favorable position PI has put itself into with research-driven chemistry and folding into allied branches, client relationships and global affinity for India-based quality specialist players like PI, compared to the other competition in other parts of the world. Therefore, I mean, time to get more ambitious probably has never been tomorrow, probably it is yesterday, I would have thought.

Mayank Singhal: Yes. You know ambitions are never going to die, number one. Number two, as you rightly said, technology may be seen, so technology is not steady. Sometimes it's chasing the long tail with steps of differentiator and when you get to that tail, it just gives you spikes, so the CPI is working in the discovery area and this is a long tail. And therefore, we're not giving up that and nothing like the opportunity that India today has to offer.

We are looking at technology capabilities which is going to be more globalized, and localized and opportunistic in nature. So, we've not left our path, as you know, we've set our path and we're moving up the value curve. And as we mentioned, we're focused on the discovery area and we're talking to global partners on the development front, which puts PI to completely a different technical competence capability compared to any of its competitors in that scene.

On the other hand, our chemistry capabilities which has been leveraged across the other application areas would also augment our strengths and also widen our offerings to a different basket of customers, and yet create a larger differentiator anchors with some of these areas.

So, we are pretty clear and confident this would give us the next kick-up of growth. It takes the base foundation to become strong and when you're developing technology with the click of a button pretty well, and we're pretty confident that we are well on the way to do that. We are positive, as we are still making India for the world with a differentiator to say that there is the best of technology, the best of cost. So, we're focusing on moving beyond this, yes.

Bharat Shah: Sure, thank you. I continue to be admirer and well-wisher of PI's journey so far. I hope that is the way it stays.

Rajnish Sarna: Thank you for your wishes.

Moderator: Thank you. Our next question is from the line of Tejas Sheth from Nippon India. Please go ahead.

Tejas Sheth: The question was on the Pharma CSM. So, obviously we are pursuing the inorganic route in this segment. What would be our aspiration from that segment over next three years on the revenue side, organically?

Mayank Singhal: Right now it's a bit of construction but obviously, it's been the three digits which we are clearly looking to see.

Tejas Sheth: So just a clarification on that. Even if we don't acquire any asset, are we looking at Rs. 1,000 crore of revenue potential over next three years?

Mayank Singhal: Rs. 1,000 crore in Pharma, I'm afraid it's a pretty large revenue which will not be possible organically to be very straight in three years. No chance. But obviously, Rs. 150 crore maybe looking at the area of intermediate non GMP. So, the organic route is where we're going to leverage to grow that level in three years. You can't get that number in organic way.

Tejas Sheth: Okay, And on this agro CSM side. If you see four years ago, there were only three four players, which were very key to the innovators. But as we see today, there are many, many, players and most of the business now is done through RFQ's rather than on relationship basis. Are you seeing intense competition on agro CSM side?

Mayank Singhal: Well, I'm not sure about what you mean by RFQ's in this because, well, depends on where you are, number one. Yes, there are many more players, the landscape will expand as businesses expand, and as the first movers. But again, which part of the pie, because there also outsourcing will move from China to India, which could be also the generic space, which could be a product which company is already making, or intermediate companies are making and are getting business opportunities, which they weren't competitive for cost in the past.

So clearly, for new generation, new product development, I am not seeing the RFQ approach really happening. It is still based on competencies, capabilities and partnership of trust which are taking that game. And that definitely have a role to play, and specifically, where they see that they're looking for continuous improvement to deliver efficiency and cost. So obviously, competition is going to come and will come. But the point is, what are we doing and what we continue to do to create, be ahead of the competition. And that's where we have our capabilities with various technological build ups, what we see in the new generation products to value our firm, to our customer. So that's where it is right now.

Tejas Sheth: Got it. Yes. Thank you very much for answering.

Moderator: Thank you. We take our next question from the line of Khushi Doshi from Axanoun Investment Management. Please go ahead.

Khushi Doshi: Thank you for the opportunity. So FY21 Annual Report mentioned that 46 new molecules were synthesized during the year, out of which 20 were scaled up and 6 were transferred successfully to the next stage, and five molecules were commercialized during the year. So my question here is, what is the percent of molecules that are commercialized for the company from the total molecules synthesized? It would be better if you could provide last year's as well as five years' average number. Thank you.

Mayank Singhal: Well, obviously, we don't have them with us right now. Typically, it's a funnel. The funnel of commercialization because some are three-year gestation, two-year gestation, five-year gestation period, or some even at shorter gestation periods. But nothing gets commercialized from an inquiry to commercialization less than two years. There's a typical timeframe for producing samples, approvals, palletization, further approvals, regulatory work, if that is applicable, and then putting up facilities or optimizing facilities for production.

Khushi Doshi: Okay. Could the numbers be provided any time later?

Mayank Singhal: Yes, we can get somebody to get that to you.

Khushi Doshi: Thank you. Also, could you shed some light on what type of electronic chemicals the company is working on?

Mayank Singhal: Well, we can't put detail onto that, as you know we are bound under very strict confidentiality clauses with our partners. Yes, we're working in that segment. And again, a limited area.

Khushi Doshi: Okay. Thank you.

Moderator: Thank you. Our next question is from line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Can you talk about the performance of AWKIRA in this quarter and what kind of target we have for this product in the next two to three years?

Mayank Singhal: Well, performance, I would say as you highlighted, the performance of the product has been highly satisfactory actually, we are very hopeful with the kind of performance. More importantly, this has been done because of the excellent execution and hard work of our team to have done a phenomenal fieldwork activity for concept selling, which has shown a 3x jump over last year.

Clearly, the way I see it, going into the future its competitive and sensitive. I would say that there's growth plans on this product. Not only that, but we have a bunch of, may be two three new other molecules which are coming in which we would see a huge shift in the way we see demand in the domestic sector.

Sumant Kumar: Do we have a task, any target of some particular numbers we are going to reach in maybe a couple of years?

Mayank Singhal: I would not like to highlight that as I said, for confidentiality purposes and also due to competition. Yes, but as I said, we are pretty good at numbers and we're confident that that can be the done, yes.

Sumant Kumar: Okay. And the product that you have launched, PB Knot, can you talk about that? What is the potential target overall, what kind of growth potential is there in this product?

Mayank Singhal: Prashant, maybe you can give some inputs for PB Knot and how you see this as a social footwork.

Prashant Hegde: Hi. Good afternoon. So, PB Knot is a novel technology which we are widely testing at this point of time. And this year also it has gone through a lot of testing and trials including commercial trials. We are hopeful to commercialize this in the coming years. This product is a pheromone-based technology, and it is basically tied to the plant, and it has to be a community approach which farmers have to adopt. So that is why we are also working with various communities, various FPO's, and the Government organizations in Maharashtra and Punjab as well.

So, because it's a novel insecticide, it is a new approach, which we have to follow under community approach. So, it is going to take a little more time than the regular insecticides, but it is a good product and we are hopeful. At this point of time, there are no other products which can give this kind of control on PB Knot which this product can give. So, because of the community approach which we need to follow, it would take a little more time to scale up. But it is going to be a sustainable product and it is a long-term product. That is all I can put it.

Mayank Singhal: And just one more thing I would add, pink bollworm is pretty menace in the cotton cash and there is no other solution. But this is again a unique concept selling, where we've a huge amount of public partnership but participation to make sure that the farmer is able to see the benefit. And I must say there's interest which has been shown by various State Governments and ex-Government to say that how PI can partner to put this concept into the market. And I think the positive outcomes have been very encouraging to the extent that we have been able to socially make an impact of this product and make sure that the farmer is able to get a better crop yield and not get damaged by this pest called the pink bollworm.

Sumant Kumar: Is it in-licensing product?

Prashant Hegde: No, it is our own registered product. Yes, obviously we partner with a Japanese company, but we have an exclusive license for India.

Sumant Kumar: Okay. Thank you so much.

Moderator: Thank you. Our next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Okay. So, since we have talked that flow chemistry if it is implemented, then it can offer both CAPEX as well as Opex efficiency, meaningfully than the batch process. So, if that is the case, then going ahead a large part of our CAPEX would be driven by that.

Mayank Singhal: Well, let me put it this way. This is number one, it's the flow chemistry, the concept which has been around for a while, which is now going to people look at commercially. It is not that it can replace batch processes. It is not something that in all chemistry, in all kind of areas this can replace. And yes, in certain critical areas it can be replaced where it can give both operational excellence and also give you safety and a capital cost structure.

PI is building this capability and looking at certain areas of opportunity that we have, where we can actually bring this value offered to the table for the company. And once we build this capability, maybe we can drive more projects and strategy aligned to that.

Surya Patra: Sure. My second question is on the kind of new areas that we have been talking about, whether it is the fine chemical one or the Pharma one, or the electronic chemicals what we have already initiated something. So, let's say on the three-year time year, what is the kind of revenue mix that we should be seeing out of non-agro base? And also if you can add to that in terms of customer composition in the CSM side for the non-agro base, what is the composition it would look like, three year down the line?

Mayank Singhal: In the organic way, in three to five years, we could see about 15% - 20% of this. We are looking to continue to grow on that big base there.

Surya Patra: Okay. Same is the case even for customer composition?

Mayank Singhal: Yes.

Surya Patra: Okay. If I can just add in here, what is the current base of our agro CSM customer base? And what is the potential target customer base? Means, whether we have enough scope to add more customers to our customer base or something on that front also, if you can add?

Mayank Singhal: Well, there's always a scope, but I think we are covering most of the customer bases in that where we were focusing on the products in the custom manufacturing point and looking at that pipeline working along with them.

Surya Patra: Sure. Thank you.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Yes. Good afternoon. Slightly in line with the previous question only. We have been a leading player in agrochemicals CSM and probably, the first player to enter into that business and have done extremely well. But somehow, probably, we have not been able to scale up our capabilities in other segment in non-agro, whether it's Pharma or probably the newer segments. So, do you think that there are limitations that form an agro chemical players, it's challenging to get into other businesses while other chemical players probably who are non-focused, non-agrochemical focused are probably able to scale up their capabilities in other segments? Is it a limiting factor?

Mayank Singhal: Well, I don't think so that at all. I think we have focused on something and have achieved it to height very clearly. Now, we are focusing on the other segments and going at it. And Pharma is very clearly a defined strategy. In the short term, you have this challenge of M&A opportunity, but I don't see that as a challenge. It is more about getting it done. And that's where we are and we see the opportunity in the other areas which is already entered. Obviously, you would have seen that the CSM business that PI has achieved has not happened overnight, it took 20 to 25 years to get to where we are today.

Inspired by Science

So it takes time. And if you want to focus strategically in the right space, and some of these we've initiated long ago. I mean if you today talked about the non-electronic chemicals, we were talking about for now three to five years. In the last three years, we've been working on it, eventually now we've got commercialization, and we see a good landscape coming up over the next two to three years. So this is what it takes in this business.

Rohan Gupta: So, probably in a product like electronic chemicals and all, when we open the opportunity, can we expect there'll be very fast run up in terms of revenues and growing possibilities and it can also add more customers? Will this product be patented or will be our proprietary product which can be offered to many other customers?

Mayank Singhal: No. We will be working with custom manufacturing approach there, so we are working with proprietary proposed product that we may have some proprietary capability that we could bring in. Yes, it will take time to get in and as it takes time to build capability and credibility in a sector. But once we're able to do that, the multiplier effect starts coming in.

Moderator: Thank you. We'll take our next question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: Yes. Thank you very much and good afternoon. Is it possible for you to tell us what is the kind of capacity ramp up we are expecting in the two MPPs you have started in the first half of the year?

Mayank Singhal: Well, I'm not sure about the capacity ramp up, but they are multi-product plants, so each product has a different capacity, which it produces. And so, right now they are in the process of their mentation of the capacity and the ramping up will take, obviously, it can take up two to three years and when they get to the full capability, because one is getting the capacity as per the demand, moving in for products that we put in. Second is also learning and improving the efficiency of the product that we're producing. So, it takes three to four years before the whole plant starts getting full capacities from the multi-product approach.

S Ramesh: And the second part is in terms of your CSM business growth. Is it possible to share with us any incremental inflows in your CSM order book, because you have indicated a decline from $1.5 billion to $1.4 billion? So how do we read that? Is there a reduction in the annual order inflow? Are you getting the growth from the annual business that you do?

Mayank Singhal: Well, given the way challenges are today, we are not looking at order book as a key driver because we are a regulatory registered product producer for these companies. It has taken multiple years to develop. We are more focusing on the quality and the content of the business followed with volatility which continues in the market. Rather than getting into order books, we're more focusing on stickiness creation of the customer. And then get into quarterly or monthly or half yearly or yearly negotiation based on the movement of prices rather building order books.

S Ramesh: Okay. Thank you very much and wish you all the best.

Mayank Singhal: Thank you.

Moderator: Thank you. Our next question is from the line of Varshit Shah from Veto Capital. Please go ahead.

Varshit Shah: Thanks for the opportunity. My question is on the EBITDA margin and higher SG&A expenses. I think we have some tailwinds coming from increase in the utilization levels of our existing assets. So, given the cost pressures and one offs, can you give us some color on how much of the SG&A expenses had a one off element so that we can understand how much impact came from the inflation?

Rajnish Sarna: Yes, coming to that, I mean there are two, three paths to your questions. Coming to the one off, the one off in this period has been close to Rs. 20-odd crore, in this period of nine months. The other reason for this increase that you are seeing is also the fact that the fuel cost has gone up quite substantially during this period. So that is another factor, which is reflecting in these percentages.

Another factor is that somehow because the last year was majorly impacted by COVID, and some of these expenses, for example, traveling and for example, couple of others, expenses, they were at quite an abnormally lower levels. And now that this year activities have barring a few months were normalized, those expenses have again gone back to the earlier, pre COVID levels. So, yes, these have been some of the factors. But in nutshell, one off kind of expenses were close to Rs. 20-odd crore during this period.

Varshit Shah: Sure. That is helpful. My second question is on the agro CSM side. One of our large molecule for a U.S. based customer is going off patent. So, do you know any sort of scenario for the CSM business for that particular molecule? Some other international players, and domestic players actually throw up good volume boost opportunity for us, given that they're already ahead in the cost curve for that particular molecule?

Rajnish Sarna: Well, I'm not sure which molecule you're talking.

Varshit Shah: It's one of the top two, let’s, put it that way.

Mayank Singhal: Yes, so I was not sure what is that question. But if you can, please repeat the last part of your question again.

Varshit Shah: Yes. So I'm referring to one of the top two molecules which we do the contract manufacturing for a U.S. based MNC. And that is going off patent in this year and next year in some of the markets. So do you see the opportunity to expand volumes for new customers for that particular molecule?

Mayank Singhal: You know, we are in the business of custom and contract manufacturing where we work with partners and innovators. We are not going to cut short by giving it to their competition, but we will support them to see how we can build the business with them.

Varshit Shah: No, so I was referring to in partnership with the U.S.-based client only, because their revenues will increase as the partnerships we are doing across the globe. So my question was in relation to that only.

Mayank Singhal: Yes, so those are discussions will remain between the partner and us. That's the way it is.

Varshit Shah: Okay. Understood. All the best.

Moderator: Thank you. Our next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: Yes, thanks for the opportunity. So, most of my questions have been answered, just one question. I mean, you have passed on the input price inflation this quarter. So would it be possible to break it up between the volume realization growth within these two segments CSM and the domestic?

Mayank Singhal: Well, we don't have that data.

Rajnish Sarna: Mani, you would have those numbers?

Viswanathan: Not really. We don't have that breakup.

Dhavan Shah: But most of that would be volume this quarter, right?

Mayank Singhal: Yes. I mean, the most part of it is the volume, there is, obviously some price hike which we have taken both in domestic as well as in export. But right now, that number is not there, but yes, Mani can certainly provide on the sideline.

Dhavan Shah: Sure. And just one thing on CSM, we have seen the highest number this quarter. So once we'll pass on the input price inflation for this segment also, can we see jump up in the revenue of this segment meaningfully over the period of time?

Mayank Singhal: Yes, so we are certainly expecting full impact of this cost increase then there will certainly be positive impact on the margins.

Dhavan Shah: Sure. Thanks. That's all from my side.

Moderator: Thank you. Our next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: CSM market size globally and what is the growth rate in the last year, and if possible what is our market share?

Rajnish Sarna: Well, this is a little tricky question, because market size depends on what kind of portfolio of products that you consider, and as you know, that we work only in early-stage molecules and all. So, considering that kind of product profile and portfolio, I mean, we believe that the market size is overall globally anywhere between $6 billion to $8 billion. And given our size you can clearly imagine that what is the kind of market share currently we have, and obviously this market, because these are early stage molecules, the growth trajectory is reasonably high, which is what is also reflecting as if you see in our own growth, you know in CSM export.

Manish Mahawar: Okay, and maybe last question. What could be the tax rate for this year and the next year? If possible, can you share?

Mayank Singhal: Mani?

M Viswanathan: In the current year, we are on the effective rate of around 16%. For the next year, we will give it in the next quarter please.

Manish Mahawar: Okay, sure. Thanks.

Moderator: Thank you. We will take our last question from the line of Deepak Chitroda from Phillip Capital. Please go ahead.

Deepak Chitroda: Yes. Thanks for the opportunity. My question is on the CSM side, if you can tell us the of number of MPPs which we have till now on plant-by-plant basis for example, Panoli, Jambusar and Isagro which we have after commissioning of these two new plants in the current year

Rajnish Sarna: We have 15 plants all put together.

Deepak Chitroda: And I think Panoli will be having the majority of the plants?

Rajnish Sarna: Yes, I mean major plants.

Mayank Singhal: Numbers yes, but capacities no.

Rajnish Sarna: Yes.

Deepak Chitroda: Okay. And my second question is towards volume and price side which I think you partially answered in the previous participant question. As you mentioned that the growth has come from the volume side, right? So, it is correct to say that, probably, you might have taken around 2%- 3% kind of price hike and probably might take another, maybe double price hikes for the next quarter?

Rajnish Sarna: As we have explained in our release that the partial impact of this price hike is already reflecting in our quarter three numbers. And balance impact will also surely reflect in Q4 because the cost trend is still continuing and there is always a known lead and lag whenever you have this pass through.

Deepak Chitroda: Yes, sure. I was just trying to understand that price increase will be taking probably for the next quarter will be slightly higher compared to what we did in Q3?

Rajnish Sarna: This all depends on what product, what price is getting impacted. So, for some product, it has already been done in this quarter, and for remaining product, it will come in the next quarter.

Deepak Chitroda: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management team for closing comments. Over to you, sir.

Mayank Singhal: Thank you, everybody, for all your time, support and participating in the call today. I wish you all very safe times ahead. And I'm sure that with coming time, this Omicron should be over and life should be back to normal for you and your families. Thank you.