PI Industries Limited
Q1 FY21 Earnings Conference Call
August 06, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the PI Industries' Q1 FY21 Earnings Conference Call. As a reminder, all participant lines will be in 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 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' Q1 FY21 Earnings Conference Call. Joining us today are 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, Executive Director and Mr. Subhash Anand, Chief Financial Officer.

We will begin the call with key thoughts from Mr. Singhal, thereafter, we will have Mr. Subhash sharing his views on the financial performance of the Company. After the opening remarks from the management, the forum will be open for question-and-answer session.

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

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

Mayank Singhal: Good afternoon everyone. Thank you for taking the time out and joining us on today's discussion. Hoping that all of you are safe and well. These are unprecedented times for all of us and my earnest wish is that all of us come out of this pandemic healthier and stronger.

Before I delve into our business performance highlights for Q1, I would like to share that Q1 also marked the successful completion of our ~Rs. 2,000 crore QIP. I wish to therefore commence, by expressing our gratitude to the investor community for this overwhelming response and trust that they have placed in our business model and growth story. As shared earlier, we will be utilizing these funds towards our longer term growth initiatives.

Coming to business performance, quarter 1 typically sets the tone for the agri-inputs industry in India. Our reported performance is a reflection of a solid business model, portfolio of industry leading brands, meticulous planning and our unique Go to Market approach. This healthy momentum in sales is in-line with our outlook and has come despite continued disruptions caused by CoVID-19 pandemic.

Exports have continued to improve Y-o-Y backed by proactive raw material and capacity planning. Outbound shipments of commercialized molecules have gained momentum Q-o-Q and the demand for key commercialised molecules continues to be strong. The integration of Isagro products and under-utilized capacities also added to overall business momentum. The order book continues to see healthy accretion in line with our experience profile and track record. During the quarter under review, we also successfully scaled up and supplied initial quantities of CoVID-19 intermediate.

The domestic sales have come in at 76% higher Y-o-Y as we were able to position the right product at the right time in the market to meet farmer requirements. This was also boosted by carryover demand from Q4 of last year to the current quarter. Overall, we saw good rainfall early on, the sowing activity has built up well in Paddy, which saw 19% jump in acreages as at end-July. The area sown for pulses stood at 19% higher and that for oilseeds 17%. Water level at reservoirs was more than sufficient owing to plentiful winter rains.

We have seen solid progress for domestically produced 'Nominee Gold' this season and I am glad to share that we have recorded highest ever placement of Nominee Gold this season. There is also a line-up of new products ready to be launched in the Q2/ Q3 of this year and these will further strengthen our product portfolio in certain crop/pest segments and improve our market share..

The initiatives we have outlined for integrating Isagro's operations are beginning to yield positive traction as reflected in the revenue momentum. Isagro Asia reported ~13% growth during the quarter with substantial improvement in the EBIDTA margins YoY and I believe that this is a strong start to the financial year.

FY21 will see us introducing some high potential new brands domestically and further enhance our business momentum there. On the back of a good start to the Kharif season, favorable policies aimed at boosting agro-economics, we are confident of achieving industry leading growth trends in the domestic market. Our CSM exports will also show enhanced growth given the new capacities that have got available, higher requirement from innovators and new molecules seeing commercialization. PI is standing at the cusp of a robust and sustained growth phase with added footprint across high-potential chemistries and domains.

This brings me to the end of my remarks. And I now request our CFO, Subhash Anand, to carry forward this discussion. Subhash, over to you.

Subhash Anand: Thank you Mayank and Good afternoon, everyone. I will share the financial highlights for the first quarter ended 30 June, 2020. All comparisons are with Q1 of FY20 and on consolidated basis.

During the quarter under review, we reported 41% revenue growth to Rs. 1,060 crores, driven by 76% growth in domestic operations to Rs. 446 crore, and 23% growth in exports to Rs. 614 crore. Both domestic as well as export supplies have picked up pace with all manufacturing facilities being operational and capacity utilisation is building back to pre-COVID levels.

EBITDA enhanced by 55% to Rs. 236 crore translating to EBITDA margin of 22%, an expansion of 140 bps Y-o-Y. EBITDA performance was a result of control on overall fixed overheads. Profit After Tax stood at Rs. 146 crore, higher by 43% supported by enhanced topline performance and higher depreciation in-line with new capacities added.

Continued momentum during Q1 has further strengthened our balance sheet position and also led to a strong accretion to the cash position. Free Cashflow generation stood at Rs. 298 crore which came in through better working capital management. Increase in operating cash flow is also helping fund continued strategic initiatives. Our Debt/ Equity position stands comfortable at 0.18x after excluding the receipts from recently concluded QIP.

Total capex in the first quarter was ~Rs. 64 crore with progress on projects was little slow due to Covid-19 impact on labour availability. Company though remains committed towards capacity enhancements to achieve our growth initiatives.

That concludes my opening remarks. I will now 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. We have our first question from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: The first question is with regard to the gross margin. Your business typically is more inclined to superior gross margins for domestic business. This quarter, you had a superior domestic business growth. How should we look at the gross margin now?

Subhash Anand: The gross margin variation, what you see this time is basically a difference or mix impact of different products what has gone in and the business variation, what we see. Because gross margin on standalone basis, if we look at product level, yes, we are delivering the specified gross margin level, but it has an impact on product mix as well as business mix.

Nitin Gosar: Keeping in mind Nominee Gold sales were higher, why it would have an inferior gross margin? Like you had a super domestic business growth, you had a higher Nominee sale.

Rajnish Sarna: So just to add to what Subhash explained, now the overall business also has a portion of Isagro domestic business, okay. And relatively, Isagro' business, if you see has a lower EBITDA margins or gross margins, particularly gross margins compared to the other segments, both domestic and export. So, in totality, when you combine consolidated, it looks the gross margin may have reduced. But when we look at EBITDA levels and net level, the sales kind of mitigate or rather fixed cost gets leveraged and the overall EBITDA and net margins remain unaffected. Therefore, we need to see this composition in totality, while at gross margins level, it may look lower, but overall level because of the operating scale, this will get compensated and which is what is reflecting in numbers.

Nitin Gosar: Okay. So gross margin, which are looking Y-o-Y down, it is more to do with the Isagro and CSM business and nothing to do with domestic business?

Rajnish Sarna: Yes. Mainly two reasons. One is Isagro composition combining with the overall business and second is the product mix, but mainly Isagro business.

Nitin Gosar: Okay. And second question is, how should we look at the domestic business for FY21? There are a couple of moving parts, right? I thought it's better if you can help us understand this. One keeping in mind Isagro to be carry forward of FY20 sales. And see, there was some kind of early monsoon. So, a couple of events have happened for the first quarter. So how should we think about FY21 on a whole?

R. Ramachandran: So, let's start from the market perspective. So as all of you know, we have had a timely onset of monsoon, which also, at least in the first 3-4 weeks seemed to spread uniformly. The market was also fairly buoyant due to a couple of other reasons.

One is, of course, the onset of monsoon which led to much higher planting, and you heard Mayank talk about significant higher planting, whether it is rice, oil seeds, etc. So, the planted area were higher. The third factor was I think after the lockdown in the early phases of Kharif there was also across the agriculture industry a perception of demand-supply gap. So, there was a tendency to kind of purchase in advance at many levels, whether it is fertilizers or crop protection. And perhaps a fourth driver was, given the labor migration and issues that we all know and kind of dependence or increased use of herbicides in quite a number of crops. So those are the 4 factors. So, you have seen most companies, and including PI, having a very robust demand in the first half. This is also one of the reasons why Nominee placement, which has been one of our highest. And I can also tell you that the product on ground, which we closely monitor, has also been significantly higher than what we had during the similar time period last year. Now I must also clarify that the growth that you see is not just driven primarily by Nominee Gold. There are other brands of PI which also contributed. For example, Elite, which is another herbicide, which is used in corn. We also had growth coming from Osheen, our insecticide brand, which is used in rice and cotton etc. pre-placement of that. And also, a couple of other products like Cosco, which is again increasingly a new product that we launched 3-4 years ago and increasingly having a much higher acceptance.

So, these are the factors which are driven. In addition to that, the Isagro domestic business also had a good growth based on portfolio and cross-selling initiatives that we have undertaken. Now what do we expect? We believe that this year, we will have the industry growing, probably higher than what we have seen in the last year maybe 2-3 years if the kharif season holds up the way it has so far. So, we will probably see growth in the area of low double digits, somewhere between 10% to 15%. And in terms of our own business, given the robust start that we have had, given the significant changes that we have made in terms of whether it is our commercial policy, whether it is the channel engagement policy through adoption of several digital initiatives during these last 3-4 months. We believe we will be definitely growing higher than the market, 1.5x higher than market is what our expectations are.

Nitin Gosar: Okay. So probably around 20%-25% domestic growth we should be looking for this year?

R. Ramachandran: Well, I said the industry growth is perhaps going to be somewhere in the range of 10% to 15%. So yes, around 20%-22% is probably what we could look at.

Moderator: Thank you. We have the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: In the last quarterly presentation, you had given some inputs on new product pipeline, how things are improving, more MNCs are talking to Indian companies for outsourcing. Could you elaborate on what is happening? What's the status there?

How are you seeing now, at this point of time? And any update on how much of them we would actually take it up to the project level?

Rajnish Sarna: Yes, so as we kind of informed earlier that there is certainly a traction in new enquiries which is basically driven by the kind of changes that we are seeing in overall global supply chain landscape, geopolitical scenario that we are witnessing. Number of inquiries have substantially increased over last 2-3 years. Currently at any given point we are working on more than I would say 50-60 inquires in R&D still. The second change which has happened is that a lot of non-AgroChem inquiries are also floating in the R&D, there we are working on them. There is a good progress and a regular feature there is that, every couple of months we are seeing products moving from lab scale to kilo scale through then pilot scale which is kind of process that is there in this, since this is a manufacturing business. So, we are seeing a lot of products moving in that direction. This year also we are expecting close to 4 to 5 products getting commercialized and already having a lot of discussions and negotiations with some of the global customers, both in AgroChem and non-AgroChem side.

Madan Gopal: Okay. In FY20, the last year, full year, how many products would have moved to the commercial stage?

Rajnish Sarna: Last year, we have commercialized 4 products, if I remember correctly.

Madan Gopal: So, with the increasing inquiries, you still feel this number won't increase meaningfully.

Rajnish Sarna: It will increase, but please appreciate that this is a process anywhere between 1.5 to 2 years, this whole new molecule development and its scale-up takes anywhere between 1.5-2 years, depending on what stage that molecule is. If that molecule is already commercialized and we are proposed to be one of the suppliers, then yes, it may be faster, maybe 1 year or 1.5 years. But if it is a new molecule, then it takes anywhere within 2 to 2.5 years. So that is the reason that you are not seeing that significant increase in a quick succession. But over a period, this will certainly be reflecting.

Madan Gopal: And any increase in the CAPEX guidance, at this point? Any new projects being envisaged?

Rajnish Sarna: No. We have maintained our guideline, the previous guidelines of investing close to Rs. 550 crore to Rs. 600-odd crore over the next 1-1.5 years.

Moderator: Thank you. We have next question from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: My question was around the domestic growth. You mentioned that somewhere upward of 20%. Does this calculation include Isagro or is excluding Isagro and the base domestic business? That's my question number one.

And question number two is, of course, what is the timeline you see in terms of utilizing your QIP proceeds in terms of, let's say, a 2-year time frame, it could be less than 2 years? So, any qualitative color on that would be helpful.

Rajnish Sarna: Yes. So, the domestic revenues are going to be in excess of (+20%). And when we are saying this, this excludes the incremental revenue that we get from Isagro consolidation. That on its own is also growing well. So that is the answer to your question number one.

As regards QIP, yes, we have successfully completed the fund raise and as we explained earlier, we are basically intending to utilize these funds for our longer-term strategic initiatives, and it is going to take anywhere between 5 to 6 quarters to fully deploy these funds. We are looking at basically, pursuing multiple strategies and therefore, looking at multiple opportunities, not a single kind of inorganic option that we are currently considering. And therefore, it will take some time to kind of identify suitable options in each of these set of strategies that we are following and then implement them. So, we have already built a deal team, a solid team, which is intensively scouting for the right options. Currently, also, we are looking at several options in each of these areas. And we hope to kind of expedite this process going forward. But this is the kind of outer timeline that I indicated anywhere between 5 to 6 quarters.

Varshit Shah: Sure, that's very helpful. One last thing, if I could squeeze in. For the quarter, how much was the Isagro contribution in absolute terms? This is my last question.

Subhash Anand: In terms of top line, the Isagro topline was Rs. 99 crore.

Varshit Shah: And what is the split between domestic and export?

Subhash Anand: The export is around Rs. 30 crore and Rs. 69 crore comes from domestic business.

Moderator: Thank you. We have next question from the line of Probal Sen from Centrum Broking Limited. Please go ahead.

Probal Sen: Just to clarify the understanding, just on the gross margin comment you made during the first question. Essentially, if I understand, the Isagro margin being relatively lower, dragged down the consol gross margin. But because the revenue contribution is significant and obviously, the extent of, there is some amount of cost synergy in the OpEx, we can expect the EBITDA margin to sort of remain robust, even if let's say, at least for the next 6 to 9 months, the gross margin may take a little bit of breather from your historical levels due to Isagro. Is that understanding correct?

Rajnish Sarna: Yes, you are absolutely right.

Probal Sen: The second question was, with respect to the exports growing over the next few quarters, can we get some guidance on what the order book growth has been for this quarter? And what do we expect the exit rate to be? Any quantitative range that you can give?

Rajnish Sarna: Well, there is no meaningful growth in order book as such compared to last quarter. But as we have guided in past, we have a very clear visibility of growing the offtake and supplies in this CSM exports, in excess of 20% year-on-year basis. And so that kind of visibility is certainly there. And as I said earlier, that we are also working on a large pipeline of products into discussions and negotiations of several of these molecules. So, we expect to kind of over a period, further build this order book position.

Probal Sen: The last question was, you already mentioned this in terms of the domestic growth outlook, which is very healthy at between 20% to 25%. And is it then fair to assume that if I look at the domestic revenue of around, I think Rs. 440-odd crore, that was there in this quarter and exclude the Rs, 600 million or Rs. 60-odd crore from Isagro, so essentially, that number will continue to grow at 20%. And then Isagro, should we be building in low single-digit kind of a growth because that is what is more reasonable, and that builds up to the consol number? Is that a correct way to look at it?

Rajnish Sarna: Yes. I am again repeating that, yes, for our domestic business, we are confident. Obviously, it's a seasonal business. So, let's also keep our fingers crossed that this kharif momentum continues and obviously in Rabi, we do not see any negative factors as such at this point in time. So, keeping all this in mind we are confident that we should be able to kind of continue this momentum of 20%-plus kind of growth. We have already seen Isagro since we have taken over. In last 2 quarters, we have done exceedingly well there, both in terms of our growth momentum and in terms of completely turning upside down, I mean, downside up, I would say, in terms of EBITDA of that business. So, I think that business is also doing well, and we have a good visibility of kind of achieving low single-digit kind of growth momentum there.

Moderator: Thank you. We have next question from the line of Sameer Shah from Value quest. Please go ahead.

Sameer Shah: We have formed 2 subsidiaries for pharma. If you can give some light on what is the plan on the pharma side?

Rajnish Sarna: Yes. So basically, as we have informed earlier in previous calls, that we are very aggressively looking at diversification strategies in the pharma intermediates and advanced intermediate space. Already working on several potential partnerships and molecules and products. And therefore, in order to kind of aggressively pursue that strategy, this is an enabling kind of action where we are creating 2 wholly-owned subsidiaries, so that as we progress on those options and strategies, we can then accordingly use these subsidiaries for a right and appropriate structure. So that is the whole purpose. But yes, I mean, we will not be able to share too much at this time, it's premature. But yes, we are working on several options in pharma space at this point.

Sameer Shah: So, the 15% tax rate is for new CAPEX that companies do, so these subsidiaries will serve and that is both domestically and international subsidiaries?

Rajnish Sarna: Well, at this point, I mean, we have created a subsidiary, not that we have kind of made a plan to invest and manufacturing setup and all because all these tax incentives are more linked to that thing, as an Indian Company, doing manufacturing and all those other conditions. But right now, it is just incorporation of 100% subsidiary. And we will see that how we are going to use these subsidiaries to pursue our strategies in this space.

Sameer Shah: And second thing, if you can give some sense of the pricing environment in domestic market?

Rajnish Sarna: Raman, you may want to come?

R. Ramachandran: Yes. So, the pricing environment, initially, there were certain points about pricing because some materials were expected to be short of supply. However, I think most companies have tried to realized that there is going to be probably a liquidity issue. So, there's been quite a bit of effort to not hold on to prices. At this point, I would say that while pricing is better than last year, it is not definitely where we expected it would be, let's say, 3 months ago, given the kind of sentiment that prevailed in the market.

Sameer Shah: All right. And anything we are doing to de-risk from China? I mean what is our China imports and any thoughts on that?

Rajnish Sarna: In fact, we have been working on that for the last, I would say, at least 3 years. The COVID situation is now, but we were already foreseeing some changes in supply chain landscape because of the geopolitical issues and all, at least for the last 3-4 years. And we were already working on that strategy 3-4 years back, we used to import close to 30%-40% of our total raw materials from China. But that percentage has sharply gone down to maybe less than 10%. We have been able to develop a lot of alternatives in India and in other geographies other than China. So yes, I mean and that was one of the key reasons that we could continue our operations at this scale in the last quarter. Despite all these challenges, we were still able to continue and at a reasonable scale, all our operations and sustain the shipments and pace of production and all. So that has certainly helped us with this whole effort in the past 2-3 years.

Moderator: Thank you. We have next question from the line of Andre Purushottam from Cognito Advisors. Please go ahead.

Andre Purushottam: I have two questions. One was about the CoVID-19 intermediary. Can you throw some color as to who is the customer and what is the potential you see going forward? And my second question related to the acquisitions that you're planning to do. When you do these acquisitions, these would be in very different chemistries. So, do you plan to also buy that expertise in those chemistries, or do you think they are largely resident in-house? And how would you go about deciding the blend of what is in-house and what you need to shop for outside?

Rajnish Sarna: Yes. So, the answer to your first question is that we are not supposed to talk about our customers and products. This is the general obligation we are in the CSM space. But whenever we work with our customers on products, we are not supposed to talk about them. But I mean, it's not very difficult for anyone to kind of imagine that we are supplying the products in Japan and to some of the leading players in India.

Coming to your second question in terms of what we are looking for, what is in acquisition. So yes, as I said, we are working on a multi-pronged strategy right now. One strategy is certainly to diversify into adjacencies and, in particular to the pharma space. Now, we have been working in this space, particularly in intermediates for last 2-3 years. We have made huge investments in R&D in terms of technology development and all. But yes, in order to take a jump start, we are looking at some suitable inorganic options so that rather than creating infrastructure, building infrastructure, getting approvals, acquiring incremental customers and all, if we can get an already set business, which is also complementing the technologies and the client base that we have with our technology, it would be an expedited process to make a meaningful scale in pharma space. So that's the whole approach in that area.

Apart from this, we are also working on a strategy to de-risk our concentration of operations in India. We are looking at some options overseas, which can also, again, both in terms of geographies, in terms of adjacencies to the final market or to the customers, our global customers, if they can give us some edge apart from de-risking our concentration in India. So that's another area that we are looking at a few options. And the third area is, of course, we have a portfolio of technologies of our own. We are looking to further broaden this portfolio. We are evaluating some of these very interesting technologies, which are very complementary to what we are doing and we believe by combining these, we can create significant large values. So, these are some areas where we are looking at acquisition options.

Moderator: Thank you. We have next question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: My first part is, given the increase in the domestic sales, the share of the domestic business looks higher than what it has been in the past. So, do you see this domestic sale as a percentage of your total revenue kind of maintaining this trend as we have seen in the first quarter, say, over the next, few quarters?

Rajnish Sarna: Well, first quarter will not always be kind of similar to this, because this is a seasonal business. The domestic is more of first quarter which is a placement quarter, so it will be relatively sizable. But as you will go into third quarter or fourth quarter where revenues of domestic business will go down. So that is not a very representative quarter. The revenues are not evenly distributed, particularly in domestic area. But yes, on an overall basis, we see opportunities of growth, as explained earlier, in both the domestic as well as export area. We have a good outlook on both the areas. And therefore, we would expect to maintain the kind of composition that we have seen in the past of broadly 70-30, in favor of exports.

S Ramesh: The second thought is, in terms of the utilization of the QIP proceeds, and it's almost doubling your net worth. So, if you must maintain your ROE, it would generate about Rs. 400 crore of profit after tax. So, what is the kind of timeline you are looking at to achieve that kind of target to maintain your overall ROE based on the combined network, including your QIP proceeds?

Rajnish Sarna: Yes. So, as I responded to the earlier participants, we are expecting to fully deploy the QIP funds maybe in the next 5 to 6 quarters because we are looking at multiple opportunities, not a single opportunity here and pursuing multiple strategies. And yes, these numbers are very much on our radar. And our objective is that once we are able to fully deploy these funds, we should be able to, I mean, these should be EPS accretive for us. We should be able to improve our margin and our return profile where we are today. That is the broad objective that we have with the management team.

S Ramesh: So, what is the kind of outer time limit you have in mind to achieve that objective once you acquire these assets?

Rajnish Sarna: Well, I would say it may be close to 2-2.5 years.

Moderator: Thank you. We have next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: There was about Rs. 100 crore worth of revenue that was supposed to be deferred from Q4 FY20 to Q1 FY21. So just to check whether all of that has actually been recognized this quarter?

Rajnish Sarna: Well, I thought this was some Rs. 85 crore-90 crore. And most part of it, I think, close to Rs. 70 crore-75 crore got recovered. And the rest of it was basically time bound. So, if this was not done in March**,** I mean, most part of it got recovered.

Abhijit Akella: That's great. And second, just on the CSM capacity utilization. You mentioned about MPP 5 not receiving the restart approval. So, was this the accident-affected plant and what's the status there? And then on the MPP 10, I think which was supposed to come up in Q2 FY21, what is the status there?

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Rajnish Sarna: Yes. So, this is MPP 5, yes, it's the same plant where we had the accident last year. And because of the COVID situation, the regulatory system was also not fully operative and hence this got delayed. But we are expecting to kind of start this soon within this quarter. MPP 10, yes, again, because of COVID situation, the biggest impact that we saw was on this contractual labor, non-availability or unavailability of the contractual labor in desired number. So that has certainly impacted some of these projects and delayed them by a few months. So is the case because, obviously, given these constraints and challenges, we were also keen on prioritizing where we need to deploy our people, our employees, contractual workers and all. And in that priority, more importance was given to the regular business, our supply business, supplies that were continuing, so that we sustain the supply momentum. And therefore, some of these projects like MPP 10 and MPP 5 already, as I mentioned, is expected to get commissioned in this quarter. But MPP 10 will get delayed by end this year or early next year.

Abhijit Akella: Okay. Got it, And the income from associates of Rs. 5 crore, is that from the PI-Kumiai JV? Has that started the operations? Is that the reason for the jump there?

Rajnish Sarna: Yes. That JV has started, and we have already started formulation activities also there in the last quarter.

Moderator: Thank you. We have next question from the line of Amar Mourya from Alf Accurate Advisors. Please go ahead.

Amar Mourya: First, congratulations for the strong export growth in such tight supply situation. My first question is how much of the revenue loss you would have seen in this quarter because of the MPP-5, which has been affected by the fire?

And secondly, any color on the export guidance for a full year basis as we are expecting 20% kind of growth in the domestic business?

Rajnish Sarna: Yes. So, I'm not sure I heard your question clearly, but your first question on the impact of MPP 5?

Amar Mourya: Yes.

Rajnish Sarna: Yes, we were already not expecting it to start early this quarter. But yes, I mean, anywhere between, I would say, around Rs. 50-odd crore would be the impact of this delay. And what was your second question?

Amar Mourya: Second question is export revenue guidance, like we are expecting a 20% kind of a domestic revenue growth for full year basis. Any color on the export revenue guidance?

Rajnish Sarna: Same. I mean, we expect, we have a very clear visibility in terms of supply schedules and orders to achieve more than 20% kind of growth in exports as well.

Moderator: Thank you, sir. We have next question from the line of Niket Shah from Motilal Oswal Asset Management. Please go ahead.

Niket Shah: Two questions. Given the fact that we had lockdown in the first month of the first quarter, would you say that assuming if the lockdown would not have been there, would CSM revenues be far higher than what we have reported? That's the first question.

The second question is we do read a lot in media that the Government is working on a chemical policy for pharma manufacturing and obviously you have also opened two subsidiaries. And you also have very strong cash and balance sheet, thanks to QIP. Any thoughts around this, I mean, what kind of thought process that the Government has towards the chemical sector, specifically on the pharma manufacturing side? And how will it benefit us if Government had to roll that out for our future CAPEX?

And the third question, if I may just squeeze in on the margins. We have been in the range of about 21% margin. But historically, we have seen that whenever a large CAPEX is being done by PI, the subsequent years margin tends to expand because of economies of scale and productivity. And hence, do you think that is also likely to play out going forward? Thank you.

Rajnish Sarna: Yes, I mean, there was a disruption in our operations in the month of April, even in May, we were not operating at full scale. So yes, to that extent, if this COVID situation was not there, we would have certainly done better than what we have done in first quarter, particularly in CSM exports, because here the production is kind of revenue. So, if we are able to produce at 100%-90% kind of capacity utilization as against that I think in April, we were operating at maybe less than 60% for at least for 2-3 weeks. And then also later in May, the utilization was less. So yes, short answer is that we would have certainly done better.

Niket Shah: How much would be?

Rajnish Sarna: Yes. It's difficult to quantify. But yes, I mean, easily, I would say, anywhere between Rs. 75 to Rs. 100 odd crore, we could have done better.

Coming to your second question on Government policies and announcements in pharma space and this was opportunity for us. Frankly speaking, we have been, as I said, to the earlier participants, we are already working on this strategy for the last couple of years. And our whole focus is to kind of create our own niche, develop technologies which can give us a kind of edge in whichever sweet spot that we kind of operate. So, it's not more depending on what incentives or policies that Government is coming out with and therefore getting into that business area. It is more driven by our own technology that we have created and developed over the last few years. Yes, Government policies will certainly help us become more efficient in this space. But our key objective is that we certainly need to build the technology which can help us build a sustainable, profitable, niche space in the pharma segment. So that, we are already working, already looking at several options to expedite this whole process. And what was your third question?

Niket Shah: On the margin side, historically whenever we have done CAPEX, on margins do you think this 21% can move up to 22%-23%?

Rajnish Sarna: There is certainly opportunity for improving it. There is certainly an upside to it. But at the same time, as we also indicated earlier, that there is already lot of developmental spend happening in R&D, in our businesses. Now there's a digital wave which has started, so a lot of investment has been there as well. So yes, while there is opportunity to improve the margin levels with this operating leverage that we are getting. But at the same time, we are also investing in development. And therefore, we are a bit, I would say, cautious in giving that guideline. But we are confident of sustaining what we have so far maintained, the kind of margin level.

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

Bharat Shah: Sarna sir and Mayank ji, I think all the efforts of the past and all the systemic efforts in developing technology, I think some gains is beginning to get reflected in the current results. But I think the task ahead is bigger and much more work will be required. So, congratulations and all the very best. Delighted to hear these results.

Rajnish Sarna: Thank you. Bharat bhai.

Moderator: Thank you. We have next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First thing on the domestic front. We have taken certain initiatives on the inventory management and the digital initiatives, which you mentioned, for our channel partners. And plus, we have a wider portfolio now, differentiated one with Isagro being there. Also, how far or if you can share some timelines in terms of the synergy benefits coming in on the domestic side for Isagro and also from the export CSM perspective?

R. Ramachandran: Yes. So, let me take the domestic first. Now what we have decided to do is not to merge the 2 businesses and integrate them and try to kind of realize synergies in terms of people, etc. But we have kind of a different approach. We are going to keep the Isagro domestic business as a subsidiary, which will focus exclusively on fruits, vegetables and plantations segment, which we believe requires a completely different go-to-market approach than a crop like rice or wheat or cotton, which is what PI is strong in. So, it's a very differentiated kind of go-to-market approach which we believe is going to unlock tremendous value as we have a credible track record of bringing in new products, safer products, which is what this segment requires. And we will also build a team, which really is technically competent, which is able to cater and work with the farmers for the newer and newer requirements. So, I guess that answers. I mean obviously, there are going to be some synergies in terms of there will be common back-end services, whether it is finance, supply chain, some of those kinds of. But in the scheme of things, they are of limited value. The real value is in being able to unlock the front end through this differentiated strategy. Similarly, on the CSM side, of course, I will let Mr. Sarna give you more details. But essentially, what we are trying to do there is to repurpose the plant, which as you know, is right next to our own plant in Panoli, increase the capacity utilization and bring in more value-added products. All these are happening as we speak. And if you want, Sarnaji, would you like to add any specifics to this?

Rajnish Sarna: Yes. So just to briefly tell you that this underutilized capacities of Isagro was one of the key drivers for this acquisition. And what we are doing is completely repurposing the assets. We are already fitting at least 3 products there, and we expect to kind of ramp up the throughput revenue out of these facilities more than 20%-25% year-on-year basis. So, we expect to double the throughput and revenues from these assets in almost 3 years' time. Already, a lot of work is done. We are starting product later this month, one of the products, and then maybe taking up another product in next couple of months. So, this is as per plan. And that ramp-up is, I mean, we have a good visibility of ramping of these capacities and assets.

Ankur Periwal: Sure. Second question, across the two businesses, if you can highlight any molecules which are getting off-patent in the next, maybe, 2 to 3 years?

Rajnish Sarna: Not really.

R. Ramachandran: Nothing of significance yet.

Moderator: Thank you. We have next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Two questions. One is about the utilization of this Rs. 2,000 crore. If you can just give, although you have already indicated that you're looking for inorganic growth as well as organic. So if you can briefly talk about that, without indicating, obviously, the potential takeover candidate. But, out of this Rs. 2,000 crore, how much is likely to be utilized for tangible asset, let's say, in creating capacity for your CSM, and how much is likely to be utilized for intangibles? So, if you are not considering the acquisition under intangibles, then you can in tangible one, you can club and say that, this is the amount that is likely to be utilized for tangible assets.

Rajnish Sarna: Yes. So, as I said, since we are in the process of evaluating several options, the answer is not easy, to your question. But I can only tell you that the significant part of this value is, or this fund raise is going to be for tangible because these 3 areas that I indicated, diversification into adjacencies, particularly into pharma space, diversification and also de-risking this geographic concentration of operations. I mean all these areas are basically will be acquiring something tangible. Obviously, there will be some intangible assets with them in terms of technologies and customer base and product profile, but ultimately, these are very tangible assets. So, most part of this fund raise is going to be used for tangible.

Surya Patra: Okay. And just a related question, on the CSM front, the export capability front. See, we have indicated that, okay, there is no change to our order book position, which is $1.5 billion since last quarter. Just going by the current trend what others and the global market is ongoing currently, which is replacing China in the global market for whatever chemical, whether it is agro or specialty or even pharma. So then, why is the order book position not improving for you, that is one.

And simultaneously also what I'm trying to understand, can you evolve, even manufacture the formulations directly for the global market? Is this support system for the global market given the situation that is emerging from the China side?

Rajnish Sarna: Yes. So answer to your first question is that our business model is not like to simplify selling some generic chemicals or bulk chemicals or something, so that if there is some challenge in some geography, the order flow comes to us and we can kind of anchor that opportunity instantly. That's not the kind of business model we are in. In the business or in particularly the products that we operate, custom synthesis manufacturing, as I was saying to the earlier participant, it's a 1.5- to 2-year process that they come up with their products, and we work on only these selective IP products, not into commodities and generics. And therefore, this whole process takes anywhere between 1.5 to 2 years for product development, scale up and then commercialization. So even if there have been challenges, for example, for last 3 months, 6 months, 1 year, I mean, this cannot instantly reflect in our order book. Certainly not. But yes, the impact of these challenges has been, and that the inquiry flow has certainly increased at our end. Now a lot many products are there in the R&D pipeline and there is progress from lab to kilo to pilot scale. And this would certainly reflect in more business, more products getting commercialized in years to come. But yes, given the kind of business model we are in, it cannot reflect in few quarters or few months.

Moderator: Thank you. We have the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: In terms of Isagro acquisition, so what is the timeline for Isagro margins to be in line with the domestic business and what kind of cost optimization benefits we have seen in Q1? Because as you see, the gross margins are lower, but the EBITDA margins have been higher. And will those cost optimization benefits be available in subsequent quarters?

Rajnish Sarna: Yes. So, this is the structural change that is happening in that business, which Raman also explained earlier that instead of focusing on end of the life cycle products, this business will now be focusing on a particular segment in fruits and vegetables and plantation crops. And there also, the product portfolio, the quality of products it undergoes complete change over a period. And we have already started that process as against whatever 8%-9% EBITDA margins that, that business was operating in past, already a decent margin level, high double-digit kind of margin levels have come. And as we will improve the product portfolio over a period, these margins will further improve.

Cost synergies are certainly there in terms of a lot of common resources in regulatory, in marketing and of course, in management are getting synergized and used and leveraged. And therefore, this will also reflect in overall economics of this business. Raman, you may want to add something to this.

R. Ramachandran: Yes. I think you have summarized it well. I think again, coming back, yes, there have been some early kind of cost optimization opportunities, which are quite well reflected in the Q1 results. But going forward, the optimization will come from the back end, where there will be common platforms, whether it is finance, whether it is supply chain, whether it is commercial functions, front-end will be differentiated. But having said that, it is a big transformation of the business model that is currently we have started on. So, there would be investments that will also happen in terms of front-end, getting people ready, licensing newer and newer products that are required for the segment. So yes, I would say that the immediate cost optimization has been done and now it's a transformation journey. And the third part, the back-end synergies will be there, and they have already been leveraged.

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

Rohan Gupta: First question is on our overall growth guidance which you're talking about. So, since we have already moved to pre-CoVID levels, and we were almost 85% to 90% utilization already at that time, so do you see that after a 20% growth in the current year and that Rs. 2000 crore QIP rate, that you still see that 5 to 6 quarters are still left to finalize those investments. You see that for FY22? We may be capacity challenged and growth may be limited in that year?

Rajnish Sarna: Not really. So, I mean, obviously, the organic growth investments as we guided earlier, are continuing, and we are already making those investments in addition to what we will do or what we are planning to do with the QIP fund raise. So, that capacity building is continuing. Apart from capacity building, we are also working on several other initiatives to kind of debottleneck and also ramp up capacities of the existing plants, which will also bring in a lot of significant incremental capacity and show the value in the existing entity. That effort is also on. So, all in all, I mean, that process is working parallelly, and we do not see or foresee any capacity challenge next year in terms of sustaining this 20%-plus kind of growth rate.

Rohan Gupta: Okay. My second question is on our strategy, and you mentioned that we have three strategy diversifications to pharma, but the Company is on the dependency on reducing the concentration of India. And when everybody is talking about increasing the presence in India and 'Make in India', we are looking at our global ambition. So, I just wanted to know that we are still globally very small player. I understand that

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there is a huge opportunity for us to grow manufacturing based in India itself. So I just wanted to understand that the reason behind we trying to reduce our concentration in India at such an early stage and do you see that our commercial business has now plateaued as far as India is concerned, and we can only grow by going globally and adding more customers globally?

Rajnish Sarna: So, just to clarify on that part that we are not kind of holding or stopping our investments in India, no way. I mean we are continuing our investment in India, manufacturing space investment. So certainly, that is continuing. But in fact, as a Company, we are also looking at a longer-term perspective. So, everything looks interesting really in short term, but if you look at things in 5 to 10 years horizon, we will always see that these are all cycles. So, the challenges that we are seeing in China today because of, again, concentration by several companies in one geography. Obviously, I mean, when and how these geopolitical scenarios change, you never know. So as a Company, we are also kind of looking on this aspect from a longer-term perspective that while we shall continue our investments in India and we have these growth opportunities, at the same time, from longer-term perspective, look at opportunities of also kind of trying to be this concentration, which doesn't mean that we are not going to continue our investments in India. Certainly, yes. But at the same time, we shall also look at opportunities where apart from de-risking the geographic concentration, we can also get near to the market, that could be the global customers, get into even more deeper kind of engagements and associations with them, which will also be a growth driver for us, but at the same time also de-risk our geographic concentration. And if tomorrow, something happens in India or in a particular geography, it is not that we are stuck just because we are concentrated in one region. So that is the rationale of that strategy.

Moderator: Thank you, sir. We have next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Just wanted to understand how many new plants are going to come up on the CSM side of the business in its 2 years apart from the MPP 5 and 10 that you mentioned?

Rajnish Sarna: Yes. So, currently, we are working on two plants and which is what we have guided, and the rest will depend on how we are progressing on our R&D pipeline. And then periodically, we will review that situation and kind of also indicate our plan for further plant. And lot will also depend on our initiatives on inorganic side. So, what happens that sometimes when you are working on inorganic options, some of these capacity requirements can also be matched with underutilized capacities there. So that's the reason that we have given a limited guidance right now for next 1-1.5 years and for guidelines beyond that, we would want to have a clear picture on inorganic side first.

Vishnu Kumar: Got it. So apart from MPP 5 and 10, we are not going to add any more plants now? At least not today, you are not adding it.

Rajnish Sarna: At least today, yes. At least today.

Vishnu Kumar: Got it. And your utilization levels are okay. So, would it be okay to conclude that for the next 2 years, until your inorganic acquisitions going to kick in, we will do at least 20%-25% kind of a growth in the CSM bit?

Rajnish Sarna: Yes. I mean we have given a guidance of 20% plus revenue growth.

Moderator: Thank you. We have last question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Just a small clarification and it is on the CAPEX. So, we had a Rs. 400 crore gross block supposed to go live in Q4 FY20. So, was that MMP 9 and 10?

Subhash Anand: That was 9 and 11.

Dhaval Shah: Okay, fine. So, from that, anything which has got operational or both are delayed?

Rajnish Sarna: No. So, 11 is operational. 9 is also operational, both these plants are operational.

Dhaval Shah: Okay. So, you mentioned some CAPEX is delayed, which would be commercialized.

Rajnish Sarna: That is MPP 10.

Dhaval Shah: MPP. And that was supposed to go live when?

Rajnish Sarna: That was supposed to go live in the next quarter, but it will get delayed by almost a quarter or so.

Dhaval Shah: Okay. It was supposed to go live in that, I think, third quarter?

Rajnish Sarna: Fourth quarter, approximately.

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

Mayank Singhal: Thank you, everybody. I really appreciate you coming on and for the support, and we will continue to put our best efforts to make sure that we can come back to you with a high level of performance in the challenging times and wishing you all a very healthy and safe time ahead. Thank you.

Rajnish Sarna: Thank you. Thank you, all.

R. Ramachandran: Thank you, gentlemen. Thank you.

Subhash Anand: Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of PI Industries Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.
