PI Industries Limited
Q4 & FY20 Earnings Conference Call Transcript
June 08, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 & FY20 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nishid Solanki of CDR India. Over to you, Mr. Solanki. Please go ahead.

Nishid Solanki: Thank you. Good morning, everyone, and thank you for joining us on PI Industries' Q4 and FY20 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 & 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 update presentation 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: Thank you. Good morning and a very warm welcome to all of you for taking the time out to join us in today's conference call.

I think COVID-19 today is on the top of our minds these days which is putting unprecedented challenges for all humankind. Our Government, healthcare warriors, NGOs, scientists, societies are bravely fighting this pandemic and I am very confident that our country and the rest of the world will overcome this very soon. Across the world, scientists and researchers are working to come out with a sustainable treatment and vaccine in the quickest manner possible. Taking this opportunity, I would wish you and your family a very safe, healthy transitions through these difficult times and wish you all the very best.

Now, let us look at PI. At PI, I am very proud to say that our response to COVID-19 was very swift and decisive showing organizational resilience and resolve. From engagement with key stakeholders to quick business impact assessments, necessary improvements in the way we handle our operations to clearly deciding our priorities etc., our rapid response team involving key leaders worked relentlessly to ensure that the business impacts of this sudden global crisis is minimal and we remain on course to achieve the organizational goals.

During these difficult time, we proactively worked with Governments, local administration, NGOs in different states to support the fight against this pandemic; whether it was disinfection of large public areas or distribution of PPEs or food to support disadvantaged section of the society or helping local health centers in putting up necessary infra to handle COVID-19, we were always trying to do our bit as a responsible corporate citizen and help communities around us.

Health and safety of our employees has been of utmost importance to us and we have implemented strict measures and provided all that is needed to make all our workplaces very safe for our employees. Wherever possible, we have also mandated our employees to work from home. In fact, we are already discussing work from home policy with our employees to make this a permanent feature in functional/ business processes for exclusively as a new normalcy.

One of our key achievements which I am very proud to state that we started working in the pharma sector or pharma intermediate in February. Our teams have successfully scaled up this product in record time with all the restrictions or challenges faced during the COVID-19 lockdown. We are able to support the pharma customers timely, supply intermediate for a potential COVID-19 drug. And I must say, we are proud about the hard work done by our team to collectively work and have been able to commercialize the production of such product.

Now coming to the performance in for FY20.

This has been another good year for PI and we maintained course with growth and sustainable profits mainly driven by scale up in exports despite several disruptions caused due to COVID-19 pandemic and subsequent lockdowns. Revenue improvement stood at 19% on blended basis and EBITDA grew by 25% year-on year while profit after tax enhanced by 11% year-on-year. Our performance could have been better, but for the lockdown impact mainly in our domestic revenue in Q4 resulting in partial deferment of our revenue.

We commissioned two new entities during this year and also commercialized five products. The enquiry flow and process scale up in our R&D also increased during the year with ~20% new enquiries from non-agro segment helping us drive our strategic initiative.

Our research teams are dedicatedly working towards developing the next generation technologies and chemistries so we can support to build out adjacent verticals with the technological edge in our CSM side. Our research teams are working towards creating new IP in these areas and the result will be apparent in coming years. I am pleased to share that we successfully developed and scaled up the advance intermediates to be used in COVID-19 drug. This is a breakthrough for us and we have already tied up business with few large Pharma Companies based out of Japan and India, for supplies starting from Q1 FY21.

In the domestic market, we launched 3 products including one wheat herbicide which has got good response from the farmer. Product portfolio of domestic market was also optimized during the year with withdrawal of 4-5 EOLC products and label expansion of several products. Farm application services model was very successfully piloted with ~150 spray machines which got good response from the farmers.

Q4 FY20 also marked the integration of Isagro's operations at the consolidated level and I would like to share that this business registered strong growth of 10% in the very first quarter, supporting the overall momentum. The integration exercise with Isagro is making good progress. We aim to harness its product portfolio of brands and its pipeline of to be launched products, especially in the specialty and biological categories while developing leadership in horticulture segment. With the specialized marketing channel, its field forces will complement well with ours. We are planning to re-purpose the associated manufacturing so that we can produce molecules from our export order book. Also, in keeping up with strategic objectives, we are developing in-house capabilities for some of the outsourced intermediates. With these measures, we expect the capacity utilization to go up significantly and contribute robustly to consolidated top-line. Merger activities are expected to get completed in Q4 of current financial year.

Outlook for FY21 remains robust with new brand introductions in domestic and expanded operations in exports as we will benefit from higher capacities, scaled up commercialization for existing molecules and new molecules added to our mix. We also expect domestic market to resume growth in the current year giving the favorable outlook for agriculture and agri inputs emanating from predictions of normal monsoon, increased crop acreages, favorable water reservoirs, Central Government packages and stimulus to agriculture etc.

We also remain focused to progress on our strategic initiatives for long-term growth. We have secured approval of shareholders to raise up to Rs. 20 billion. Our objective remains to judiciously utilizing these funds towards supporting strategic growth opportunities and continue growth momentum. Due to the prevailing uncertainties in the capital market, we had deferred the QIP originally planned in April, but we are currently contacting our bankers to decide the timing issue in the near future.

This brings me to the end of my remarks. And now I'll hand it over to our CFO, Subhash Anand, to carry forward this discussion. Subhash, over to you. Thank you once again to all of you for coming on this call today.

Subhash Anand: Thanks, Mayank, and good morning to everyone. I will share the financial highlights for the quarter and full year ended 31st March, 2020. All comparisons are to Q4 of FY19 and on consolidated basis.

During the quarter under review, we reported 6% growth in revenue to Rs. 855 crore, driven by 12% growth in export operations to Rs. 683 crore. Domestic revenues stood muted at Rs. 172 crore, primarily on account of deferment of product positioning to Q1 of FY21 owing to disrupted operations and movement of goods during the lockdown.

EBITDA improved by 7% to Rs. 187 crore translating to EBITDA margin of 22%. EBITDA performance was a result of favorable product mix and this was maintained despite higher input costs due to initial COVID-19 impact. Profit after tax stood at Rs. 111 crore, lower by 12% as compared to same period of last year. Contraction in PAT was mainly due to increased depreciation during the quarter.

Let me also quickly run you through the FY20 numbers. Revenue increased by 19% Y-o-Y to Rs. 3,367 crore while EBITDA improved by 25% Y-o-Y to Rs. 718 crore. Margin enhanced by 104 basis points to 21%. PAT came in at Rs.457 crore with a growth of 11% Y-o-Y.

In light of strong performance reported by the company, the Board of Directors approved payment of final dividend of 100% that is Re. 1 per equity share of the face value of 1 each.

Solid performance during the year resulted in 30% increase in operating cash flow which further strengthened our balance sheet position. Total debt net of cash as of 31st March, 2020 stood at Rs. 241 crore and debt to equity still remained at very low level of 0.15x.

During FY20, we entailed a CAPEX of Rs. 635 crore towards capacity expansion activity at Jambusar SEZ and additional Rs. 400 crores required in acquisition of Isagro Asia. We are in growth phase and continue to envisage a CAPEX of Rs. 600 crore to fund our strategic initiative in FY21.

Overall, we remain confident of attaining 20% plus kind of a growth in FY21 backed by continued healthy demand and assuming that COVID-19 curve will soon normalize.

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 the first question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just on the domestic side, we saw a 6% decline on a FY20 basis and there was a decline of about 12% in Q4 FY20. So, could you just guide us a bit on the domestic business, what is happening there and what I see generally is that Osheen which is a large product for us also becomes generic going forward. So, just on the domestic bit, I know CSM has been pretty fantastic, but just wanted to kind of check on the domestic side as well.

Dr. R. Ramachandran: So, thanks for the question. So on the domestic side, as you heard from Mayank in his opening remarks, in the last quarter one big impact was Rs. 100 crore of sale which was planned in March, essentially as a pre-placement strategy which is our strategy every year could not be executed because of the lockdown in the last 10 days. So, this primarily is one big impact that you see in terms of the last quarter impact and also on the full year.

The second question on Osheen and it is going generic, yes, I believe Mayank has a certain view on this and I kind of reiterate that first one maybe he might chip in later. We do believe that the procedure with which this approval of generic has been granted is something that can be challenged because there have been some inconsistencies in the way this approval has come in, but having said that, we are very clear that in India when we build the brand, lifecycle management of the brand and the product becomes an essential part of the long-term strategy and I am very happy to say that we do have very clear life-cycle management approaches and strategies in place which gives us confidence that the impact on the generics do come in would be minimal and we have a track record of doing this and as you may know that Nominee Gold also went generic maybe 4-5 years ago, but we continue to expand the brand and grow in the market.

Ritesh Gupta: Just on Nominee Gold, I am not sure for this the domestic production has started, but does it give you more flexibility in terms of margin or in terms of your pricing competitiveness in the product? This was my question.

Mayank Singhal: The domestic production has already been started and it gives us flexibility, but if you see year-on-year with our strong effort and strong marketing capabilities, the Company has only increased its market share with 50 plus odd brands. So, this gives us the confidence that we have the formula in place to manage generics and also continue to grow the business.

Ritesh Gupta: Subhash, can you just remind us on the new plants as well, in last 6 months, what all new CSM plants we have commissioned and what is the status of the plant which had faced an issue and when does the new plant come into commissioning in FY22?

Subhash Anand: Well, MPP 9 has started, it is now in production. MPP 11 was just started in March 2020, but obviously due to COVID-19 it got impacted and we are taking it to full capacity. As you know, new plant starting takes some time. We were also impacted by at least 15 odd days of production shutdown. So, we have a backup plan, it will take another month to really start and production to get going from this month. We will initially start with certain capacity and by next quarter in full steam.

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

Bharat Shah: Two questions. One, it was good to see now finally some success on the pharmaceutical side and would like to know a bit more about it in terms of how things may work over a period of time and secondly, on the research pipeline, if some amount of light can be thrown in terms of how things may look over next 3-5 years now?

Rajnish Sarna: Yes, about the pharma, as you have seen that we have been looking to work with some of the intermediates. We have tied up a couple of business opportunities and obviously the first one which is commercializing is going to be the intermediate which we are working with the Japanese and certain local Indian companies for supply of an intermediate based on a unique technological platform that we have been able to deliver this capability. Obviously, the drug is under evaluation and trials right now, but if it meets success, the Company is ready to commercially support the demands which may come along, maybe after the next couple of quarters. And in the present time, looking at the capacity and optimizing and augmenting our capacity both into commercial production to meet the requirements more for trial and approval for a large-scale manufacturing already being done.

In terms of the R&D I am sure and confident that in the pharma, we are looking and evaluating lots of intermediates which offer good opportunity for the Indian market segment and the global segment given the global opportunity arising out of the China challenge and augmented by our technological capabilities and process capabilities that we have been able to develop unique processes which will help us to give a unique position in some of those have been identified and we will be working on that over the next 3 to 4 years and moving ahead with our pharma strategy. Regarding the R&D, the company has been developing many opportunities, I would say that in this year, we have filed about 22 odd patents and we continue to develop our R&D ability and we do see very positive outcome and the outcome of R&D deliverables have been very positive and aggressive in this year and we are confident that in the next 3 to 4 years, we will be in a position to capitalize in a very large way of all the work which has been put in R&D over the last decade.

Bharat Shah: Will it be fair to say, in next 3 to 4 years' time, pharmaceutical side of the business would be a strong double-digit kind of percentage of the total business?

Mayank Singhal: Well, the objective is to cross the double digit of the total business yes.

Bharat Shah: And you believe it is likely?

Mayank Singhal: Well, as you know we just started and we are confident, we have made plans which will ensure that we can get there and pretty confident of seeing how we can do it, but obviously there are challenges when you are getting into new play. I am sure that we have the requisite competence and capability to handle those challenges and deliver our objectives to what we have planned.

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

Varshit Shah: My question is a sort of carryover from the previous question on the pharma side. So, what is the broad macro strategy in terms of winning new business because we already have existing players in some form, competition is already more matured compared to our core business in the pharma segment. So, what is our USP when we go the client, is it process innovation and leading to cost savings for the client or is it something else, I am just trying to understand

Mayank Singhal: Let us answer this in a way that you know well and I do not answer my strategies out very openly which I hold very close to our chest. Clearly, we have unique capabilities in some of the areas which we want to use and leverage to put into our competent areas of what we are challenging in the pharma space, that is really where we are going. And it is more driven by our competence in process and technology.

Varshit Shah: And, secondly on the CAPEX. So, can you just split that Rs. 600 crore CAPEX into how much for Isagro and how much for PI, is it possible?

Subhash Anand: The majority of the CAPEX is for PI, but this comprise CAPEX which we plan to put in use for Isagro to rebuild and revamp the plants to our level. This CAPEX is growth CAPEX and kind of the growth which we are looking for.

Varshit Shah: And if I could squeeze in that last one. So, in the domestic business, you have done some product rationalization and some tail cutting. So, is that also one of the reasons for improvement in margins, the overall EBITDA level, I could have read it or is it coming from the core CSM business?

Dr. R. Ramachandran: Yes, your reading is correct. In fact, some of this end of lifecycle products have been withdrawn which are having a lower margin. So therefore, this has also helped improved the overall margins of domestic segment.

Varshit Shah: So, our core ROCEs actually would have improved, although your revenue might look slightly lower, but comfortably it has improved actually?

Dr. R. Ramachandran: Yes.

Moderator: Thank you. We have next question from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: The question I wanted to understand was that given the place where the global agro cycle is, we are at the absolute trough of the global agro cycle and we are going to see few years of very good growth across the industry for the next few years, but after that as we have seen in the past after 3-4 years of good growth, we see a phase where volumes are fairly stagnant for the next 2 or 3-4 years considering the cyclicality. But when you look at PI, would you say that now we have become fairly diverse enough to delink ourselves from this cyclicality and have a consistent growth across the years?

Mayank Singhal: Personally yes. We have been demonstrating that in the CSM business over the years, correct and we will continue to do that and therefore diversification while capturing growth and diversification into other areas and also ensuring that we capture the right products in the value chain. We continue to demonstrate the growth rate because our objective is very clear, to grow. Growth is life as we have identified as a part of the CSM business, yes.

Kunal Mehta: Sure. And second question, I have is when you typically commercialize a molecule, for how many years have you been working with the partner to get to that stage?

Mayank Singhal: Typically, it is 2 to 3 years before you get to the stage. In certain cases, it can be even 4 to 5 years to get commercialized, but obviously it takes time to scale up specifically when you are in an innovative cycle but once we get it, the consistency of growth is something which we experience.

Kunal Mehta: And just a follow up on that. These set of intermediates which we manufacture for our partners, those are used in the new generation products which they launch which are fragmented.

Mayank Singhal: Are you asking this for the agri segment?

Kunal Mehta: Yes, agri segment.

Mayank Singhal: Obviously, in the agri export segment, we are doing both intermediates and also, both of them are yes, a part of the new innovative molecule pipeline.

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

Surya Patra: Just two questions. One is that, did you see any kind of incremental export opportunity in the post COVID-19 scenario, either for your Agri or other areas?

Mayank Singhal: Sure, we see great potential which we do see is going to come, I think right now the world is settling and dealing with the present short-term challenges and making sure they have enough capacities and make the supply chain turn it out. However, looking at the way the strategic directions are going, very clearly, I do see the opportunities would emerge specifically for the Indian market.

Surya Patra: So, while continuing on the same question, you mentioned that, while pharma is a kind of potential opportunity, now you are clearly seeing that. So, can you just elaborate a bit on, there are molecules which are in the developmental stage that you are working with few of the partners. Also, simultaneously, you have mentioned that you are working on few of the intermediates for the local manufacturers. So, are you open for generic intermediate manufacturing as well?

Mayank Singhal: Yes. So if we were to look at the generic or non-generic, again it will depend on the value offers that we can give to our customer and if we have something unique in terms of processes or capabilities, why not. As you would appreciate, our business model is that of non-compete, to support and we work in a partnership model with our global innovators. So, we will obviously keep that in mind before we look at any of these strategies.

Surya Patra: And on the CAPEX front, as you guided for Rs. 650 odd crore kind of CAPEX for the current year, so or even following year let us say, similar CAPEX even if it continues further, how much would be for Agri related activities and what would be the amount that would go for our new initiatives there, if you can talk about something on the inorganic growth aspects that you have mentioned in your presentation?

Rajnish Sarna: So, this Rs. 600 odd crore CAPEX that we are guiding, this is mainly for our organic growth wherein we have clearly identified the capacity increase opportunities and we have to increase or expand capacity, we have to also expand repurposing our existing facilities in Isagro as mentioned by Mr. Subhash earlier, so Rs. 600 odd crore is basically towards organic growth opportunities where we have significant amount of visibility.

On the other hand, we are evaluating certain inorganic growth opportunities and also we were working towards equity raise through QIP but this whole process got disrupted due to COVID-19 situation and different priorities at our end and at other companies' end. The situation is normalizing and travel restrictions are being removed, we are restarting the whole process. We have internal discussions planned later this week, early next week on the timing of this equity raise and alongside, we will also decide on some of these inorganic opportunities that we are evaluating but all this is in process as of now.

Surya Patra: This inorganic would be in the Agri side or Non-Agri?

Rajnish Sarna: This would be broadly in the adjacency, not so much so in Agri side, part of it could be in enhancement of technologies or de-risking some of these operations which are concentrated right now in India and apart from this, also into adjacencies like into pharma or other specialty chemical areas.

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

Abhijit Akella: First one is for Subhash ji, it seems like the Isagro revenue contribution for the quarter is about Rs. 60 crore if I am not mistaken, is it possible to just give us a breakdown of how much of that is in the domestic business and how much is exports?

Subhash Anand: Yes, just a minute, I will just give you that number. That Rs. 60 crore break-up, Rs. 33 crore come from domestic business and rest from export business.

Abhijit Akella: And second was, regarding your 20% growth guidance for FY21, is this inclusive of the revenue from Isagro or is this purely organic growth we are talking about and Isagro is over and above on top of this?

Rajnish Sarna: All this is inclusive of Isagro, while we see lot of growth opportunities both at Isagro side and also in the other export and domestic side, but given the current uncertainties around the COVID-19, we are little cautious in guiding but yes, we are confident that there should be certainly 20% plus kind of growth that we should be achieving in this year.

Abhijit Akella: Just one last quick thing and I will come back in the queue. The presentation does talk about certain mark-to-market losses from the balance sheet because of INR depreciation, so if you could just quantify that and tell us how exactly this have been treated on the balance sheet?

Subhash Anand: Abhijit, because we do hedge our FX (Foreign exchange) for next couple of years, you would have also read in our balance sheet, so every quarter or actually every month end, we need to do mark-to-market to our forward contract and since dollar depreciated in last few months pretty rapidly, so we do have these mark-to-market losses which go and get captured in OCI which is part of balance sheet and net worth. But it is only a notional loss or if we have time, it comes back and becomes a normal part of revenue because over a period of time, dollar do appreciate again and it gets neutralized and what we have booked forward for one year, two year finally sales or revenue gets booked into the same rate. So, it is a temporarily difference which comes and sits in balance sheet, which gets phased out over a period of time.

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

Probal Sen: On the pharma intermediates, that you spoke about which you have just started work on with Japanese Company, is it too early to sort of get a sense that if the clearances come through as you said you are already rapidly preparing for even commercialization over the next couple of quarters, is it possible to get a sense of what revenue potential or what is the size of this opportunity as of now or is it too early days as of now?

Mayank Singhal: One, it is too early to respond onto this, obviously we see sizable opportunities, as things convert, they could become of decent size, Given the context, size is not going to be very large proportion of that.

Probal Sen: And, the other question was in terms of the CSM order book today, forgive me if you have answered this before, is it possible to get a sense of which geography or which area the order book is sort of dominating, is it possible to get a little bit more detail of the USD$ 1.5 billion order book that you have, just a composition of that if you can share any details?

Mayank Singhal: I don't have the details on hand and we don't share those details because nature of the discussion on business is with that customer.

Rajnish Sarna: And geographical breakup is also not very relevant because what happens that the product is supplied to certain countries and these countries are selling, supplying these products across the world, so currently speaking geographical breakup is also not very relevant or meaningful in that sense.

Probal Sen: One last question if I may, in terms of the overall revenue guidance, is it possible to get what your assessment is, in terms of the domestic business taking up in terms of growth? Will it be more than 20% or slightly lower which will end up by CSM, is it possible for you to share your assessment today of the domestic business?

Rajnish Sarna: Current assessment is certainly yes, when we see equally good opportunities of growing at this pace 20% plus in both the areas in domestic as well as exports. Even in domestic as you would also be reading, there is a very positive commentary around the monsoon acreages and the water reservoir, so we see good opportunity to again bounce back to this kind of growth in domestic as well.

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

Vishnu Kumar: It is heartening to know that multiple levers we have for growth for the next couple of years, specifically on pharma at what point in time will we be deploying a large capital, let us say, Rs. 300 to Rs. 500 crore range, would it be like 2 years from now, 3 years from now, any colour on that?

Rajnish Sarna: Well, we are already working on this, so there are two levers, one is our organic lever which as Mayank explained earlier we are already working in pilot to scale heading towards commercialization of some of these technology-driven intermediates for COVID-19 and some other important drugs, so this is all driven in-house and we have been working on some of these things for last few years and now these things are fructifying**.**

On the other hand, we are also evaluating currently very actively some of these inorganic opportunities, so that we can short pass this whole process and get to the next level sooner. So yes, we are working on both these levels and both these opportunities, organic and inorganic to speed up and expedite this whole process in the particular segment.

Vishnu Kumar: Is it fair to say that at least in the next couple of years, our pharma piece would at least contribute something like 15-20%, say 3 years out or probably we expect it to be slightly more?

Rajnish Sarna: Yes, it should be, we are confident that it should be in double digit, now whether it is 11-12% or 15-20% is everyone's guess, but yes, our internal objective is to make it meaningful in next few years.

Vishnu Kumar: And on the fund raise, you just mentioned that you are working with the bankers, but rough timelines and roughly if you could tell us that what is the outer bound that you are probably thinking that you will get things completed by and I am probably including the acquisitions you are looking at?

Rajnish Sarna: Acquisition, obviously will depend on how much we can expedite this whole evaluation process because that is not entirely in our hands since lot of things are involved and current situation is also not greatly helping. But as far as fund raise is concerned, as I said earlier, we are internally discussing and also consulting with bankers and I hope in next 1 to 1-1/2 months, we should be coming out with a clear answer on that.

Vishnu Kumar: And one final question, in terms of your order book that you are currently having, any conversation that you are having on the agro side, any slowdown, in the next 6 months, the customer is asking for more or is there any slight delay in the schedule?

Rajnish Sarna: We have so far got very positive commentary on demand side from our global customers and that is something that we had assessed immediately post COVID or start of COVID scenario. So far, the commentary is quite positive and we have not heard of any postponement and deferment of orders that we already have in hand.

Moderator: Thank you. We have next question from the line of Andrey P from Cogito Advisors. Please go ahead.

Andrey P: I wanted to ask two related questions. In your presentation, you have said that you will explore adjacencies as far as your export market is concerned, could you just tell us what this adjacencies could mean apart from the pharma opportunity? That was one and the second is that given your growth in the exports business, at what stage are we, in the sense that are we mainly growing by increasing orders from our existing customers or is there a significant growth from new customers and which of these two areas of growth are more profitable to us, so if you could look a little forward, how should we look at our export growth both in terms of the nature of growth and the profitability of growth?

Rajnish Sarna: When you look at the nature of the growth, it is coming from mixed bag which is based on obviously new and existing customers as you would know. The customer base is very small in the Agri business, so obviously PI has been working with most of the customers is coming from portfolio of new products and a mix of the existing products and as we said, we indicatively continuing to grow and growth will give us some operating margins and I would say profitability would continue to be at the level that we are looking at.

Andrey P: The adjacencies, you mentioned that?

Rajnish Sarna: It is a different segment with a different customer base, yes and obviously the target is to look within or above that value chain.

Andrey P: So, what kind of adjacencies are we talking about?

Mayank Singhal: These are in various specialty chemical segments like personal care, imaging chemicals, electric chemicals and pharma we have already discussed, so there are different segments where we can replicate this custom synthesis manufacturing model driven by our technology.

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

Rohan Gupta: First question is on, since we have seen delay in our QIP money raise and before the COVID-19 environment it seemed that you are in an urgent need of probably spend to grow the business and I think that you were anyhow having something readily inorganic available for growth plan. So, I just want to understand that almost 6 months likely to be delayed and we don't know how the environment will pan out as you also mentioned, do you see that it has derailed someway, the growth strategy which we were working almost 6 to 8 months back and are there any major changes in the growth strategy in COVID-19 environment, that is what I want to understand?

Rajnish Sarna: Certainly, there is no derailment, we are very much on course on our strategic path that we had laid for ourselves 6 months back. Yes, there is some delay because of this COVID-19 disruption and other reasons. For the evaluation process of this inorganic in additional to COVID-19, there were some of different priorities on the part of all companies and also there were travel restrictions, therefore the progress what should have happened in last couple of months has not happened. However, things are resuming now. At the same time on equity raise also, we were not kind of that much in hurry, yes, we had an original plan to do that somewhere in April but because of capital market uncertainties and other things, we decided to postpone this and as I said earlier we are again reviewing this in next couple of weeks and will come out with clear plan on timing aspect of it, but we are very much on course to our strategic parts. There is no change.

Rohan Gupta: Second question is on, are there any low hanging fruits on which we want to take the benefit because of the China problem or do you see that any consumer behaviour changes happening after COVID event has happened and how the world is showing anger towards China, many companies still have a sourcing partner from China, so do you see that there are any near-term low hanging opportunities which you are experiencing or customer enquiries are showing that they are in desperate need to shifting their sourcing base from China or increase the sourcing base from you or any other country, are you seeing any change in customer behavior?

Inspired by Science

Rajnish Sarna: Yes, certainly, not only I would say COVID-19 impact but otherwise also, I would say for last year and year and a half, there is some sort of reshoring happening from China. Most of these global companies are very clean to build their alternative in other Asian or American companies in order to get over these uncertainties which are prevailing in Chinese chemical markets, so yes, as we have also guided in past that the enquiry flow has significantly improved, increased in our case as well but as you know we have our own principles of getting into certain set of products only, not getting into generics or commodities or these kind of products, so given that still we have got decent number of enquiries in last year and year and a half, the pipeline in R&D has also increased quite substantially, but this process of custom synthesis manufacturing is such that there is nothing short term here, you will have to spend good enough time and process scaleups and then commercialization and in any case in our business model we do not sit on idle capacities, we kind of assure the business first and then invest in capacities, so in that sense, yes we have got quite uptake in our enquiries and R&D pipeline and I am sure this is going to significantly help in further expanding our visibility for next 3-5 years and building a good business pipeline order book for these years, but yes, certainly there is a change because of whether you call it tariff wars or uncertainties in China environment, safety incidences and then on top of it now COVID-19, so there is certainly reshoring happening.

Moderator: Thank you. We have next question from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: I just wanted to understand in the domestic business, what is the kind of product concentration that we had in the sense, what could be the contribution of the top 5 molecules and our revenues and how it has changed over period of time. The question is because in the past also, we have seen that certain products like Nominee Gold sales impacted our overall performance and Osheen, earlier quarter there was a competition to Osheen, then now Osheen becoming generics, what could be and if you do the benchmarking versus peers, how do you see PI in terms of concentration?

Dr. R. Ramachandran: Let me see if I understood your question, your question is, what is our portfolio strategy if I were to rephrase it to make sure that we are not betting on a few big brands and they come under generics and we are under pressure, is that the question?

Aditya Jhawar: Yes, actually the question was that what could be the contribution of the top 5 molecules in the domestic business, because in the past you have seen lumpiness in sales because of few molecules. Earlier across Nominee Gold, now it is Osheen, so Osheen saw a significant increase in competition from Corteva in 2018 and now that is scaling up, now we are talking about Osheen becoming generic, so if you do a benchmarking of concentration with peers?

Dr. R. Ramachandran: So, any crop protection business that you take, there are about 5 or 6 brands which would contribute upwards 50 to 60% of the sale and I think ours is no different but what is important is, we have a very clear portfolio freshness. The question really for us is, do we have a portfolio freshness strategy and to that, I think we are consistently launching new products, last year we launched Awkira, the wheat herbicide which we expect in the next 3-4 years to be another leading brand and every year for the next 2-3 years we have at least 2 or 3 new products that are being launched and we are at this time tracking our portfolio freshness around 30-35% which means products launched in the last 3-4 years are contributing upwards of 30-35% of our sales.

Aditya Jhawar: Next question is, just a clarification, the pharma shipment that we talked about in the presentation, Japan and India, both are subject to the approval, the trials getting tested, then it may get commercialized in Q2 and Q3, is that correct?

Rajnish Sarna: No, these are not subject to approval, but these businesses are already tied up at a relatively lower scale. As of now these products are available in few countries only and once these products are commercially launched in other countries, our expectation is that the volume will significantly increase.

Moderator: Thank you. We have next question from the line of Chintan Modi from Haitong Securities. Please go ahead.

Chintan Modi: On the domestic agrochem business side, have you taken any price hike for the upcoming Kharif season?

Rajnish Sarna: Yes.

Chintan Modi: How much would that be, if you could on an average portfolio business?

Dr. R. Ramachandran: Subhash, do we discuss that at this point?

Subhash Anand: No, in fact we have taken price increase, it varies product to product and it is not universal. So, we will not be able to quantify at this point of time being competitive but yes, price increase has been taken I call it.

Chintan Modi: And for 2-3 years, we have seen huge raw material price increases and volatility on the import side, do you think that this volatility has stabilized now and we could see a margin expansion environment going forward?

Subhash Anand: From a domestic business perspective, the volatility and supply demand gaps are fully stabilized. We will come to know more in the next 4 to 6 weeks about that.

Moderator: Thank you. We have next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Versus say 5 years pack on similar India Sales, how would our margins for the India business have behaved, just some broad direction would help?

Rajnish Sarna: We have sustained, maintained, in fact we have only marginally improved the margin by rationalizing end-of-life cycle products and all.

Chirag Dagli: So, margins would have improved marginally all right and, this pharma intermediate that you are supplying, did it go through any regulatory inspection by the authorities? Did our plans go through any regulatory?

Rajnish Sarna: We are making only intermediates, so our manufacturing sites have not undergone any Government inspections or anything.

Chirag Dagli: And just the last clarification, this 20% sales growth that we have this is in INR term?

Rajnish Sarna: Yes, obviously because we report our revenues in INR, so this is certainly in INR.

Chirag Dagli: Because there is a significant tailwind in the currency depreciation, right, so are you building in some buffer given the uncertainties, may be could be higher?

Rajnish Sarna: Well, that is anybody's guess whether we have reached to the bottom or not, so we do not speculate on that at all frankly and suppose if that happens this will only help us improve on this number. However, when we make these kind of assessment and guide, we consider the normal current situation on currency and all other thing.

Moderator: Thank you. We have next question from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.

Ashish Thakkar: Given the inherent change in the business mix going ahead, so more towards CSM, pharma and all those things, is there a case wherein there could be gross margin expansion and we can eventually see even on the EBITDA margin side, we can see expansion in the coming year?

Rajnish Sarna: There would certainly be opportunities but at the same time you will also appreciate that we will be making new investments. The investment in commissioning of the new plant and all these things at least in the initial phase have not so positive impact on the margins and all, so therefore to be on a safer side, we will say that we will be able to sustain these current margin, however, there would certainly be opportunities to improve margin further by changing the product mix

Ashish Thakkar: On the chemistry side, so we are there in bromine already and off lately we were also wanting to work on fluorine side of the chemistry, so if you could help us understand how far we are starting up first a commercial fluorine contract or if you could help us understand?

Rajnish Sarna: We are not working on building blocks like fluorine or some other building blocks that you mentioned here. Obviously, we will not be able to share and talk too much about it on this call but our focus is on value added process technologies that gives us an opportunity and not so much on building blocks.

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

Mayank Singhal: Thank you everybody. We really appreciate you coming on this call and once again from the PI management, we wish you guys happy and safe days ahead in this very challenging times and all the very best. Thank you once again.

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

This is a transcript and may contain transcription errors. The Company or the sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.