# PI Industries Limited
# Q2 & H1 FY22 Earnings Conference Call
November 13, 2021

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 & H1 FY22 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

**Nishid Solanki:** Thank you. Good morning, everyone and thank you for joining us on PI Industries Q2 FY22 Earnings Conference Call. Today, we are joined by senior members of the management team including Mr. Mayank Singhal -- Executive Vice Chairman and Managing Director, Dr. Raman Ramachandran -- Managing Director and CEO, Mr. Rajnish Sarna -- Joint Managing Director, Dr. K.V.S. Ram Rao -- Executive Director and Mr. Manikantan Viswanathan -- Chief Financial Officer.

We will begin the call with key perspectives for Mr. Singhal, thereafter we will have Mr. Manikantan sharing his views on the financial performance of the Company, after that, the forum will open question and answer session.

Before we begin. I would like to underline that certain statements made on the conference call today may be forward-looking in nature and a disclaimer to this effect has been shared in the “Investor Presentation” shared with you earlier.

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

**Mayank Singhal:** Thank you and welcome, everyone. And once again thank you for taking time out on the weekend for our discussions. Once again, my heartiest compliments on the ongoing festive season to all of you and your families.

PI has delivered healthy performance during Q2. Our revenue improved by 17%, EBITDA saw 4% improvement and profit after tax saw 6% gain when we see it against last year.

On business front, our CSM exports continue to present attractive runway of growth where we are scaling up existing molecules across innovator relationships. Q2 recorded a 24% growth. We saw an overall growth of 27% in CSM exports year-on-date basis. Q2 saw one new MPP getting commissioned, whereas another MPP is slated to be opened in the present quarter.

We're looking at a target of 6 new commercializations during the year. Out of this 3 have already been commercialized in H1 FY22. And as has been a trend the funnel of enquiries and orders in hand have shown a good momentum, thereby underlining visibility of growth.

On the domestic front, we could not stem the decline despite global supply chain disruptions in imports and adverse weather events. Further in certain key geographies, domestic operations showed healthy placement of new products ahead of the rabi season given adequate water levels at reservoirs. Growth is making an improving trend on back of high base last year, whereas we continue to show leadership in the rice herbicide we are seeing momentum of AWKIRA adoption and scale up in the wheat herbicide segment as well. We are confidently moving ahead with a robust portfolio offering in the horticulture segment with Jivagro.

Measures taken to revamp the branding have been rolled out. Our teams are specifically engaged in extending farmer engagements through application services. These have been particularly tailored to utilize the latest technology techniques of communication with the communities.

During the quarter, we signed technology partnership under JV structure of biochemical space. Scale-up is expected to commence over the next 12 to 18 months. Our thrust on product research continues with two promising leads both addressing a sizable potential. The initiative to create better processes and scale up novel NextGen technology has continued.

We have, after an intensive internal exercise developed PI's new compass. We're defining a clear purpose of reimagining a healthier planet and also implementing a new operating model that enables us to accelerate the growth momentum in the current businesses, establishing new businesses and also continuing to add new ideas, technology and scientific discoveries. This will augment our drive to embark upon rapid, differentiated, organic and inorganic growth which is resilient by being ahead scientifically and technologically.

PI today is renowned and respected amongst innovators not only for the sharp emphasis on execution, but also the primacy given to high corporate governance. Progress in our core objective and will guide our intentions as we seek out to the right partners to help us achieve our goals. The coming years shall see us expanding our footprint of addressability across a wider band of opportunities in specialty chemicals.

Before I end, I take a moment to reassure all our stakeholders that PI remains committed to delivering and driving a sustained growth performance throughout its existing scope of operations, while also outlining a strong presence in adjacencies including pharma.

Our experience and advanced technology platforms, digital and backward integration for cost leadership and IP continue to underscore immense potential. Our aspirations are unchanged and we shall seek suitable inorganic options to rapidly commercialize opportunities in the field of pharma. Termination of the deal will not hinder us in any way.

With that I would like to now hand it over to our CFO – Manikantan to share with you highlights for the financial performance for the quarter and H1. Thank you. Over to you, Mani.

**M Viswanathan:** Thank you. Good morning, everyone and thank you for joining us today. I will be sharing financial performance of the company for the second quarter ended 30th September 2021. Please note that all the comparisons are on year-on-year basis and are consolidated in nature. For Q2 FY'22, we demonstrated a strong revenue growth of 17% to Rs.1,354 crore, steered by healthy expansion in export revenues by 24% to Rs.993 crore, led by robust volume gains in three molecules.

Domestic operations reported a moderate performance owing to global supply chain disruption, impacting imports and adverse weather conditions in certain herbicide geography among others. Domestic revenues were at Rs.361 crore. Further, for the half year ended 30th September 2021 the company has achieved a revenue of Rs.2,548 crore, a growth of 15% on YoY basis.

On profitability front, gross margin improved by 90 basis points in Q2 FY'22 which came despite significant increase in input cost and reduced export incentives by approximately 1.5%. This expansion was supported by favorable product mix. EBITDA increased by 4% to Rs. 292 crore, translating to an EBITDA margin of 22%. Margin moderation reflects the impact of higher input cost. Profit after tax enhanced by 6% during the Q2 to Rs.230 crore and for the half year enhanced by 15% to Rs.417 crore. Balance sheet position further bolstered during the quarter based on strong performance momentum. The company generated positive operating cash flow of Rs.208 crore during the half year FY’22 and also maintain higher inventory levels to meet customer requirements to avoid supplies and disruptions.

Before I close, let me quickly share some statistics around our capital expenditure. For the half year ended 30th September, we have entailed Rs.168 crore of capital expenditure and remain on track to deploy further Rs.105 crore for the reminder of the year.

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

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Ritesh Gupta from Kotak Institutional Equities. Please go ahead.

**Ritesh Gupta:** One is on the pharma side, now that Ind Swift is not happening, what's the plan in terms of the overall ramp up of the business – will you still keep to your guidance that 20% of the business would be driven by pharma let's say four years down the line? The second one is this quarter we see an interesting thing that your gross margins have expanded despite all the RM inflation that you talk about in the presentation then and partly maybe because of product mix, but other expenses also shot up materially, is it largely an impact of power, fuel and logistics cost or is there something else? I think the question here is that have you passed it on fully as of now or is there a scope for the margins to improve in the subsequent quarters?

**Rajnish Sarna:** Good morning, everyone. You have two questions. Number one, on pharma strategy of PI is two-fold. One is what we are organically doing in-house, that remains unhindered and intact. We are already progressing on several of these intermediates at our pilot scale and at different scale of levels. That continues even for commercialization of those products where there is no need for GMP manufacturing facilities. We are already in the process of commercialization, modification of plant and all that. So that continues the way it was planned. The second part is where we are requiring some GMP facility and therefore for that purpose we will surely be looking at other alternatives of inorganic opportunities. We are already in that process of shortlisting. There are several opportunities in the market. We are evaluating them… in fact, we were looking at them, and we will soon kind of internally decide on what are some of these opportunities fitting in our scheme of things and accordingly work on that. And in the meantime for shorter period we can always look at outsourcing models to bridge the gap. So that is in nutshell the overall approach on pharma, but we remain confident on our plans, on our scale up and within next four years' time our aspirations of achieving close to 20% or more than 20% of overall PI's revenue from this vertical remains intact. Your second question was on gross margins, so yes in the CSM space we have seen increase in input cost across the products and services and even we have seen rise in fuel cost from 30% to 50% or even more than 50%. So in many cases there will always be lead and lag in this input price increase situation and in many products raw materials is still continuing. So yes in many cases, we have already passed through that and built in prices and in many cases discussions are still happening. This is the current situation and we believe that with our understanding with these customers and global companies and our agreements and understanding we shall be able to pass on these input costs to our customers and optimize and maintain our margin. I hope I answered both your questions.

**Moderator:** The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar:** Just going back on the margin question again, we see that your EBITDA margin has come down. So is there any one off sitting in your Opex cost this time around?

**Rajnish Sarna:** Actually, it is the impact of both. The fuel cost which appears you see in the overhead bucket. So there is a lot of fuel or utility cost and all that which is there. The inflationary impact of that is also reflecting there and of course there is one-off cost as well. Many of these strategic initiatives that we have taken over the last one, one and a half year, two years a lot of cost is also pertaining to those strategic initiatives and are of non-recurring in nature.

**Vishnu Kumar:** Can you quantify that non-recurring number?

**Rajnish Sarna:** Non-recurring would be I think Rs. 10 crore to Rs. 12 crore or something.

**Vishnu Kumar:** Sir, on the pharma strategy you mentioned organically various parameters. Is there any Capex that you would require to set up plants until and unless you find an inorganic opportunity would you go ahead and invest any multi-purpose plants or can you do it in your agrochemical facility, some broader understanding on this organically how we can scale it up or what sort of revenues that you think can at least do on this side, if you could just help us to understand?

**Rajnish Sarna:** So, wherever there is no requirement of GMP, yes, we can certainly invest, we can modify some of these available white spaces and use them which is what we are currently doing. We can also add one multi-product plant where we can kind of manufacture many of these intermediates on a multiple basis. So yes, that is very much part of our plan and this will become part of our normal Capex of Rs.300-odd crore every year that we have envisaged.

**Vishnu Kumar:** Any rough Capex towards pharma organically that you're building in this year, next year?

**Rajnish Sarna:** So, around Rs. 75-odd crore is what we are anticipating at this moment which is mainly towards the modification of some of the white spaces that are available.

**Vishnu Kumar:** And any revenues you are deriving now or how much you expect to generate out of this Rs.75-odd crore from next year or so?

**Rajnish Sarna:** Although these are all part of now planning process that is still going on, but yes, surely in mid-to-long-term basis we will be able to certainly generate 1.5 to 1.75 multiple of the investment.

**Moderator:** The next question is a follow-up question from the line of Ritesh Gupta from Kotak Institutional Equities. Please go ahead.

**Ritesh Gupta:** One other follow up I had was on the domestic side. Domestic growth rates for some reasons has been fairly muted if I strip out Isagro acquisition and this growth. I know that industry peers also haven't done well. But what could change the future of the business and what could help you drive grow at 8%, 10% or 12% also over next three, four years? And if you could just in key one or two points which led to this domestic growth rates to still be muted over the last three, four, five years?

**R Ramachandran:** As you rightly pointed out, I think this year despite the monsoon starting off well and then there was a fairly long disruption followed by continuous rain, so agriculture and Agchem industry in general has been pretty muted and we expect at best flat to maybe a low single digit growth in the first half of the year. So in that particular context, given that we have had some supply issues from some of our key products from our global partners which is related to various supply chain constraints that we are seeing globally, that really was one constraint that prevented us from growing more than what we have done at this point, I mean we came in kind of flat in the domestic business, that's one key factor. So that's a one-time effect and with a better planning, better communication, we are now adequately covered with our global partners for the rest of the year and going forward. The second was there was specific issue in the markets for example, in Uttar Pradesh which faced the continuous rains for a long period of time, our rice herbicide penetration was dampened and that's been an additional factor. So these are a couple of the key drivers for the muted growth that we have seen. Added to this we had also planned a couple of new product launches both on our Jivagro, the horticulture side and also on the PI agri side and due to regulatory delays that did not happen. So these are the three factors. But on the positive side where we have not been able to sell because of market and weather conditions, we have proactively taken the product back, sales return has happened. So we are starting off the rabi season on a very sound note with less inventory for products in the system. Also, we will be launching two new products in the rabi season, one is a rice insecticide and another one is a new biological fungicide for grapes which is very unique because it does not have what is called as pre-harvest interval, so it can be applied all the way close to harvest which is a great kind of a convenience that we will give to the consumers. And the third very positive aspect of our portfolio has been the wheat herbicide which we launched about a couple of years. We are very, very happy with the kind of demand that we have seen in the market and the liquidation that is happening as of now. So the answer to your question about the confidence about future really is on the basis of the blockbuster new molecules that we are planning. The much focused go-to-market approach that we have for the rows crops which is dominated by PI and the horticulture crops dominated by our new go-to-market approach with Jivagro combined with our digital and mechanization efforts. So, these are the areas which will give us confidence that will continue to drive growth well above the industry.

**Mayank Singhal:** And also, to further add that we also have a few products which are coming in the next coming years in the pipeline, which is also strong, to give us this confidence of driving far above the industry growth.

**Ritesh Gupta:** So just to conclude, we expect rabi season to be much better, thanks to the 2 new products launch in domestic market, is that the correct understanding and any inventory in the channel that you might have had?

**R Ramachandran:** Yes, and also we have rice herbicide in the south and the early kind of impact of the new molecules.

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

**Aditya Jhawar:** So if you can give us some sense on the Capex intensity. So what we have seen that Capex intensity has been coming down quite sharply. Is it that because we are intending to do some acquisitions, that is the reason that organic Capex has come down? We understand that our order book has come down from USD 1.5 bn to USD 1.4 bn. We understand that there is a strategic reason that we don't want to commit more feet on the ground. So if you can directionally help us understand on the organic Capex side what is the thought process?

**Rajnish Sarna:** On Capex front, there are two points, Aditya. One is that as we have also explained in our previous calls that over the last one, one and a half years, with the implementation of some of these process innovations and also engineering technologies we have been able to substantially improve the plant throughput. And this is precisely the reason that we would have also noted that current year we are commercializing six molecules and still we have not invested very heavily in terms of building new plants. So, this is one key reason that you see less intensity. This has always been one of the key strategic objectives for us that if we have to sustain the growth and more importantly profitability in this CSM export we will have to substantially improve our capital efficiency and I'm happy to share with you all that we have been, with the intense efforts from our research and engineering team we have been able to see the fruits now for last one year or so. So that is one reason and

**Mayank Singhal:** It really is very satisfying to see that how the investments in R&D technology are yielding us these positive outcomes.

**Rajnish Sarna:** Coming to second point in terms of order growth, yes, there is a marginal decline, but this is primarily coming from the current pricing scenarios that we are seeing in the market. As you can imagine that input prices are swinging here and there and in this kind of scenario we found it really difficult to kind of commit long-term prices and get into long-term agreements or something. And particularly when I'm talking about price trends and all I'm more talking about the fuel and other inputs which are part of conversion cost, not so much so on raw material front because that in any case is pass-through generally. So because of the current scenario, we thought it is better to kind of wait-and-watch rather than continue aggressively pushing for long-term agreement, all the commitments and all that. So this is precisely the reason for this marginal decline.

**Aditya Jhawar:** My second question is on the gross margin again. Sir, we understand that there could be a favorable product mix change. But to better understand this like there is an element of increase in share of revenue from the CSM business. But sir within that if you can help us understand that as the new molecules that we have commercialized in the last few years possibly they could be relatively higher stage or stages of complex chemistry. Does that mean that as newer molecule contribution revenue would increase, that margin trajectory will continue to improve, some color on what essentially you mean by favorable product mix change?

**Rajnish Sarna:** So, there are two elements to it. One reason is of course the business mix. So as you would have seen the CSM export share has increased this year because of continued growth and a little slower growth in domestic products and areas. And the second is that since you commercialize I think six to seven products in last one and a half year, those have also contributed in terms of improved margin. And obviously as these products will scale up going forward because in the initial couple of years, the volumes always are relatively lower, but as these products will get registered in different countries, these are mostly new products, as these products will get registered in the newer geographies, the volumes will increase. Obviously, these will also contribute in terms of improved gross margins and profitability. Secondly, the scale will also increase and that will also bring in the operating leverage to the overall P&L. So yes, we expect that once these one-off kind of things are out, we see some stabilization in the input pricing and we have also made the right corrective measures on the pricing front due to this current wavering input prices, the margin should certainly improve.

**Moderator:** The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

**Surya Patra:** My first question on the pharma side. Sir, obviously, we have been working on the outsourcing opportunities as well as the intermediate manufacturing opportunities. But could you share something on the customer acquisition front because we know that is a bigger challenge in the pharma other than the capacity creation or capabilities build up?

**Mayank Singhal:** I think that's a fair question. The customer acquisition side, once we've been able to establish the product and the technology, we have a strategy to go out and work on those customers. We've already identified those areas. And from the intermediate side, there's a process of approval and regulatory requirements which may be required in different stage for different kind of products, those are in plan. And that is what is the key thing of getting executed over the next 18 months so that we see to go to the next step

**Surya Patra:** You have mentioned about manufacturing and fructifying for one of the electronic chemicals with the one leading global player. So can you talk something more about that opportunity that is focus area? During this supply disruption, what we have been witnessing did you find any major long-term supply contract from global customer side?

**Mayank Singhal:** From the electronic chemicals, yes, we have got into the commercial manufacturing of the product. And as we continue to look ahead we clearly are getting into a long-term areas where we are in the various stages of approvals and we do believe that yes, this is going to definitely land up in long-term contracts in the next couple of quarters. And obviously, as you know, electronic chemicals are a new area where we see a huge potential and we are working in those areas now. So the interesting and exciting part was that we have got into the commercial manufacturing and met customer requirements and approval.

**Surya Patra:** If you can just add on, post Ind Swift our inorganic initiative, having an experience with the Ind Swift what are the changes to our M&A strategy for pharma or something like that?

**Rajnish Sarna:** No, not at all. In fact as we mentioned earlier that approach of pharma strategy and our approach of expeditious scale up remains the same. We will work on both differently. Organically, what we had planned and what we are doing we are expeditiously progressing on that. And on inorganic front again as I said we will surely maintain the same approach. We will look at several options which are there in the market and quickly move forward.

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

**Rohit Nagraj:** Just delving on the earlier question on electronic chemicals, I understand this is a growth opportunity even from China perspective. So if you could just give us a little more color in terms of the opportunity size, are we directly approaching the OEMs and whether it is a domestic-oriented business also which can be scaled up eventually because I think we are still dependent on imports of these electronic chemicals which are relatively high priority ones?

**Mayank Singhal:** So obviously the electronic chemicals opportunity is large as these are small volume, high value complex chemistry areas. There's a quick turnaround time. We clearly have our enrolls with the credibility in the markets in Japan and other parts of the world where we've been able to establish and make these entries. Having said these entries, we are working with the OEMs which are in the chemical part of the business and that's really we are working and looking to say that how do we with step-by-step go up to the value added to the end game. And that's really how we are taking this approach. And there's another vertical approach where like we've been able to build over the years in the CSM, focusing in the pharma as well as in the electronic chemicals area.

**Rohit Nagraj:** The second question is again during your initial remarks and in the presentation you have said that you have signed a technology partnership for JV in biochemical space. So if you could just give a little more in terms of what is the space, how synergistic it is with our current R&D program and in terms of opportunity size what are we looking at over the next couple of years in terms of pilots and then scale up and commercialization?

**Rajnish Sarna:** This will add to our portfolio of technology basically because so far our focus and effort of our existing resources and technologies was more on chemistry side and this will bring in this newer area, biochemical, which we can certainly leverage both on pharma side as well as on agrochemical side and that is the whole plan. As I mentioned earlier, we have entered into a joint venture arrangement with the technology partners. We are expecting to scale up in these technical technologies and processes across pharma intermediate as well as some of these Agchem intermediates over next 12 months to 15 months' time and then we will be commercializing them. Whatever regulatory processes are also involved here will also be taken up with the respective customers and then we will be commercializing these technologies.

**Rohit Nagraj:** Just one clarification in terms of pharma inorganic initiative. Any timelines that we are looking at now?

**Mayank Singhal:** Well, this is on yesterday basis. So that process is on and we will surely expeditiously working on that project.

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

**Sumant Kumar:** In H1 we have a 27% growth in CSM segment. So can you talk about the new molecule growth contribution we have launched in last three, four years and the whole chemistry growth?

**Rajnish Sarna:** We'll not have this number in front of us, but I can tell you that for example, we did some assessment, close to 17% to 18% of our revenue is coming from new products in last three years assessment that we have done. So whatever products that we have launched in last three, four years, they are contributing close to 17% to 18% of revenue and I believe this is going to be the trend for next several years as we are also continuing to launch newer or commercialize newer products every year.

**Hemant Kumar:** Talking about the product – AWKIRA, what is the outlook in this rabi season for the herbicide?

**R Ramachandran:** The expectation is that we would cover about 3x of the area. We had covered more than 3x of the area in the last year. And as we speak now we are very, very happy with the progress that we have made and we are on a daily basis treating what we treated in the first year of its launch. So it's a very, very healthy progress and the demand has been extremely good.

**Moderator:** The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta:** A couple of questions: First is in last two to three years our focus has been more on driving throughput with the limited Capex but we have seen a significant improvement in asset turnover. But definitely sir there is always a limitation on that, we have not been adding much on the ground or any larger investment has been made in any Greenfield or plant. So sir with this limitation on further driving the throughput probably over the next two to three years, what do we see that, how much more asset turn we can generate or how much the total turnover we can generate from our existing assets and how much is it for further Brownfield expansion at our existing plant?

**Rajnish Sarna:** Yes, you're right, as I was also telling earlier for last more than one, one and a half year we have been putting focus efforts in this direction and we have achieved great success and that is the reason for commercialization of several of these new products. We were not required to put in four, five plants. Otherwise going by the previous sales, we would have invested at least in three, four plants. So that is one. Secondly, on your other question on what kind of turn that we can get, I am sure we can reach to 2.4, 2.5 asset turn kind of figure in six months, one year time as we are still optimizing some of these throughput, in some of these plants. So that process will continue and will give us a lot of efficiency advantage. In terms of our visibility for growth, that continues and we still maintain that we have close to 20% kind of growth visibility in the CSM scale-up in exports and our current R&D pipeline, the pace of commercialization of molecules, everything is giving us confidence that we have on the scale-up and sustain growth.

**Mayank Singhal**: Also, we continue to augment the investment in our resources in R&D in terms of human capital to manage more projects. One more dimension which you must keep in mind that when we built a Brownfield in '21, the larger part of the infrastructure capital is done. So the additional capacity expansion which may not be as substantial as you see at a certain peak at a point and we still have potential of putting up a few multiple plants because of the backend infrastructure exists.

**Rajnish Sarna:** Because the common infrastructure is already invested two years back or three years back.

**Rohan Gupta:** You said that we still can put some more MPPs on our existing facilities and already covered with the infrastructure. Sir, on that only I want to understand a little bit more elaboration in terms of how much money we can spend more on a Brownfield like Rs. 500/700/1,000 crore because we definitely will be facing the issue of land availability and a basic infrastructure because we are in chemicals, so there is only restrictions on how much capacity we can add on our existing facility, so on a Brownfield over next two years how much investment these existing plants can absorb sir?

**Mayank Singhal:** First of all, we do not see any limitation of expansion per se like many industrial estates in different parts of the country, fortunately, we do not see that kind of a challenge in the industrial estate that we are operating. Availability of land, disposal of effluents, these are the major reasons generally in the industrial estates where the expansion is restricted. We do not see these challenges in Jambusar where we are operating. So that is one. Secondly, further land is also available, so that's not a challenge. But even in the available land we can have another at least two, three multi-product plants and as I said earlier that the normal investment plans of Rs. 250 to 300 crore every year is what we can invest although while we will be planning and finalizing these plans, lot will also depend on what kind of inorganic opportunity we finally land in because a lot of this Capex will also kind of reconfigure with that kind of a certain plan. But, yes, generally sitting today we can say that close to Rs.300 crore Capex every year is what that we can plan to meet the capacity requirements, to meet the pipeline of commercialization products that we have.

**Rohan Gupta:** Sir, definitely we must be very aggressively looking now on any pharma asset. We had roughly Rs.2,000 crore raised from the QIP and has further added to that cash only because of the solid free cash flow generation. Sir, any thought process change in that because now you are sitting on a much stronger balance sheet than earlier, almost Rs.2,500 cash further going to add there, so are you looking at now much larger asset base and even for the global acquisitions also you're open, so is there a change in thought process that now you are looking much larger scale or it is similar we are looking at?

**Rajnish Sarna:** Frankly speaking, size is not the criteria for us. As a matter of fact it was also not a limitation for us to look at something interesting which fits in our scheme of things. So we are absolutely open, whether it is a relatively smaller size or whether it is a larger size, I think the importance is that what we will be able to do with that option in mid to long term is going to be the key criteria for us to go for that option and we'll be certainly open to look at all kind of options, smaller, larger, variety of the revenue, variety of the assets, customer, products, so there are several critical aspects and we will be open to look at various options.

**Rohan Gupta:** Would you be able to put any timeline on that sir? I know it's very early.

**Rajnish Sarna:** I responded to the earlier participant on this that this is on yesterday basis, so obviously we are working on this very expeditiously and we'll see what best can be done.

**Moderator:** The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

**S Ramesh:** First part is if we're looking at the two MPPs, in the second quarter and third quarter what is the amount of addition to the gross block on capitalization and can we assume an asset turn of 2x once they are in commercial operation?

**M Viswanathan:** So the capitalization is Rs.168 crore during the first half of the current fiscal and we expect the same asset turn will continue after the period of six months from capitalization.

**S Ramesh:** The second part is I just want to understand what are the lessons you may have learned from the business transfer arrangement you had with Ind Swift and how do you envisage overcoming whatever constraints you face in concluding that deal in whatever targets you're looking at in your current endeavor to make an acquisition on the API space?

**Rajnish Sarna:** I would say a lot of lessons, then obviously the preliminary assessment about the company, about the reputation, about value systems and various aspects that are important to kind of assess in the very preliminary kind of evaluation. Those certainly need to be taken into account. And obviously as we also said earlier that just because we have to expedite the process and expeditiously complete the process, we certainly cannot compromise on various vital necessities and critical aspects of M&A, we would certainly want to get out of something rather than feeling sorry after the completion of the thing and then kind of keep explaining things to our stakeholders. And that approach will certainly continue. Yes, we have to expeditiously work on the inorganic thing but without compromising on the value systems and governance and our approach of doing things.

**S Ramesh:** On the specialty chemicals space, is it possible to give us a number in terms of what is the CSM and fine chemicals target opportunity you're looking at and what are the additional Capex required in the next two years to three years?

**Rajnish Sarna:** This is what I answered to the earlier participant that Rs. 250-300 crore is the Capex that we are envisaging in order to build capacities and also meet the R&D pipeline that we have or the commercial product pipeline that we have.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal:** One more question on the pharma business. Now, fundamentally on the agrichemicals CRAMS business, historically, we focus only largely on the innovation part of the business, right, working with innovators and doing custom synthesis. In pharma, even the ISL transaction was a buy out for generic business. So are we looking at pharma opportunity in a different way the way we pursued agri CRAMS in the past?

**Mayank Singhal:** As you know, the pharma CRAMS business is slightly different the way the agri CRAMS works. It is more active and capability driven and credibility driven, would need to be built through either structures of assets and generics which we are looking at as an approach and eventually going into that space with the longer strategy which could be much shorter and a faster way of doing that whereas the generics and the CDMO approach works with the same organization in many of these in the pharma side.

**Rajnish Sarna:** Just to also add that it took us close to more than two decades to kind of get to the quality of CDMO that we are in today okay in the Agchem space. And what we said that yes, I mean we have to eventually get to the same level in pharma but let's take an approach which can get us there, maybe much faster and which is where while on one side we are working on technologies at our end, we have already kind of scaled up some of these technologies where we see a lot of potential in pharma, but in order to get access to the customer and also expedite the regulatory process of manufacturing asset and everything, we are taking this in our inorganic approach whereby we can start with maybe a generic kind of a model where we get access to the customer, the asset, the regulatory approval and then eventually change the quality of revenue and quality of portfolio over a period of time. And in the end, we believe that this approach, this process will be much faster than what we have done in Agchem. I hope this answers your question.

**Nitin Agarwal:** It does. If I can probably probe that a little further, in pharma CRAMS generic to CRAMS evolution I think that's been the standard model that most companies have tried to adopt but we've seen that it's not been an easy transition for companies to make, largely because for a generic pharma business you cater to very different customers and the innovation CRAMS are very different set of customers altogether?

**Rajnish Sarna:** You are right. Although the difference will be if you are a technology-based generic player or you are me too, one of the 20, 30, 40 players in those products. And we are certainly not aiming for the second one. We are aiming for the first one where we have our differentiated technology which will be the key driver for us to engage with these customers with existing products and then eventually and gradually get into more kind of value-added and patented molecules with same or different set of customers. So yes, it has to be backed by differentiated technology. This is the difference we are talking.

**Nitin Agarwal:** On this one, so when you say differentiated and the technology platform, so if you can very qualitatively explain how you are thinking about that differentiation?

**Rajnish Sarna:** I certainly cannot talk about those technologies here, but just to explain you the difference that there is x product and there are already 15 suppliers and there is maybe a temporary vacuum in the market because of this global supply chain challenges and we kind of build a capacity and we start manufacturing and supplying that product basis whatever is the current process of technology which is available for all these 15, is one scenario. The other scenario is that you have done some process innovation and with this process innovation, you are coming up with a completely different approach of manufacturing the same product which gives either the sustainable model from environment or safety perspective or it gives a completely different cost leadership and therefore you have created a differentiated approach or technology to manufacture the same product. So obviously these global leading players who are also now more and more inclined towards the ESG aspect of the business, are keen on adopting and also aligning with the manufacturer who come up with such innovative and differentiated approaches of manufacturing these even generic products.

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

**Bharat Shah:** If we take into account our portfolio of strengths which is basically any complex chemistry to research, long-term view of the business, technology related to the chemistry activities and the strong client relationship, if we look at the next five-year target of superior growth which is something that you have articulated earlier, both keeping in mind these strengths, what are areas that delight you and make you feel good about it and what are still the areas which probably are chinks in the armor or if not chinks in the armor are the areas which need still significant adjustment to be done in order to achieve our vision of the long-term?

**Mayank Singhal:** Thank you for that question. I think it's an interesting question. I think we do believe that there are core strengths and we have done and depicted and shown our performance in those areas in the Agchem space. And we definitely need to constantly keep evolving and moving ahead and building capabilities to create further attractiveness in different areas of application. As a matter of fact already over the last couple of years proactively invested in the front end of the markets like in Japan, we've added resources, capabilities coming from the pharma, the fine chemicals space and building the customer space. Obviously, the deeper insights have not been set up as you would see the whole challenge has been there in building that whole relationship. On the other hand, in other parts of the globe we started to build those relationships in those two areas by investing in them by putting resources. On the back end I think technology, if that is our core and that is our love, we constantly need to expand that horizon because they are constantly evolving and constantly changing and we need to open new horizons. As you would see through our strategy, we've been constantly doing that. And technology again, as you know well, is key in the chemical industry, actually when you look at innovation is a three to four to five year game before you actually from concept to really putting it to work and a ten year to fifteen, twenty year game after to make it really value created. And that's really where we are. And we're deepening this by the technology capabilities to create a further deeper, stickier relationships. And that is going to be answered by innovation. And that's the area that we have already as you would see touched 100 patents which led to opportunities to create a little more stickiness and it is embedded into the customer mindset, our capabilities from technology front and the value commitment which we have is obviously something which the customer appreciates while partnering with innovation. So that's where we are.

**Bharat Shah:** Would it be fair to say at one point of time probably we considered aversion in say agrochem specialty form research driven of course, but finally our growth kind of a firm. Is that a certain but clear shift in the mind that basically complex and innovative chemistry is our calling card and over a period of time that is what we need to achieve is a larger objective?

**Mayank Singhal:** I would not say yes. That was the new vertical, second engine. Our first engine of agrochemical is our strength and continues to grow as our strength and we are leveraging that to create the next play and at a global level of challenging innovation and new products and continuing to make sure that becomes the engine by itself while the platforms are being put into the second engine. So clearly the technological research capabilities are the core competencies which were there which the world has seen it within applied, within Agchem, now we're applying it in other areas, but doesn't mean that that Agchem we're not going deeper down the value chain from all the research.

**Bharat Shah:** Just to reiterate on the first question, any areas of concern while there are invisible areas of strength which we have demonstrated, any niggling concerns we worry something which is work-in progression we are not clear whether we have crossed the hump, anything that you think needs to be thrown light upon?

**Mayank Singhal:** So as you would appreciate when you're challenging technology you're always standing on your toes, right, because innovation in technology is always a part which you take which is a higher return game, but in order to mitigate that, so there are many challenges risk we see, in order to mitigate that we have opened multiple frontiers. So at least even if a few succeed, we have achieved the objective which you actually laid out to play and that's really how we work with it. So the idea here is how do we differentiate and how do we mitigate but achieve the path of innovation and technology in order to deliver what we call the long-term sustainable growth for the knowledge and value add.

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

**Mayank Singhal:** So thank you everybody for taking the time out on the weekend to be here to participate with the PI management and wishing you all and your family a good weekend. Thank you. Bye-bye.

**Moderator:** 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.

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