PI Industries Limited
Q2 & H1 FY21 Earnings Conference Call
October 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q2 & H1 FY21 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 from CDR India. Thank you and over to you.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on PI Industries' Q2 & H1 FY21 Earnings Conference Call. Joining us today are senior members of the management team, including Mr. Mayank Singhal - Executive Vice Chairman and Managing Director, Dr. Raman Ramachandran - Managing Director and CEO, Mr. Rajnish Sarna - Executive Director, and Mr. Rajiv Batra - Chief Financial Officer. We will begin the call with "Key Thoughts from Mr. Singhal", thereafter, we will have "Mr. Batra 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 maybe forward-looking in nature. And a disclaimer to this effect has been included in the "Business Performance Update" shared with you earlier.

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

Mayank Singhal: Thank you. Good afternoon everyone and thank you for being with us today. I trust and hope that all of you are doing well. At PI, we are continuing to steadfastly focus on our goals while adhering to outlined SOPs to protect our employees and stakeholders from the pandemic.

I would like to take this opportunity to introduce to you all our new Chief Financial Officer, Mr. Rajiv Batra. He joins us with a rich experience profile and will be addressing you after I complete sharing my perspectives.

Coming to our business overview, Q2 saw a continuance of healthy momentum at a blended level. Within India, our portfolio comprising largely of branded high-performance products has delivered steady traction again. This follows good distribution and availability of rainfall during the monsoon. The share of sales from Isagro's range fostered the momentum. The intensive engagement we undertake with farmers distinguishes our approach on the front and this has borne results in the quarter as well.

With resumption of overall trade and commerce activity, our exports have also seen a healthy run rate given our proactive approach on raw material inventory management and capacity planning. Our client partners continue to show faith in us strongly and outbound shipments are tracking as per schedule with strong demand for key commercialised molecules. Both existing molecules and the more recently commercialized ones have seen good uptake. Our sterling reputation for integrity and quality has given us comfort on the order book, with number of enquires rising. The scale and scope of our research expertise combined with our vast experience in agro-chemical manufacturing clearly places us ahead with innovators and new customers. We continue to supply Pharma intermediates on commercial scale with more than 10+ pharma products at various development stages in R&D hoping to commercialize a few in the near future.

Our domestic business has shown a 33% improvement over the previous year, as we continue to stay ahead of the trend. Some amount of unseasonal rainfall towards the end of the quarter notwithstanding our sales would have been even better. With favorable agroclimatic in place, farmers have sown across record acreages. Paddy and soybean especially have shown very good growth pattern Y-o-Y.

With almost full reservoir levels across the country and higher MSPs, the stage is set for an even better Rabi. The farmgate reforms initiated by the Government will give confidence to farmers to better plan their cropping and sell with a defined market in mind. As a natural corollary to efficient farming, we are positive about prospects of high-performance brands further enhancing with this move. Concurrently, the commentary of key global innovators showcases robust trends within global agchem.

We have introduced two new brands in the domestic market. One is an insecticide 'Londax Power' aimed at rice crops and other is a fungicide 'Shield' aimed at rice crops. Jointly with Isagro, our portfolio is one of the strongest in the business and with these novel launches, it should further give us good traction. Isagro itself has shown continuance of healthy trends of growth.

Now, I am glad to share that we have filed 18 new patent applications during H1 FY21 including intermediaries of Covid-19, and we are one of the only few companies in India to do that.

For the forthcoming year, i.e. FY21, PI will come out with new and innovative solutions on the domestic side to complement the attractive line up at present. Having said that, we expect our wheat herbicide and spray solutions portfolio to augment this momentum. The investments we are making in the exports operation will see a new units getting commissioned. The pace of new commercialization will continue to enhance, in line with strengthening of our pipeline over the years and planned diversification in new verticals.

Our initiatives on the inorganic front remains on track and the objective is to diversify into adjacencies, widen technology portfolio and de-risk operations. We are very closely assessing pharma assets and working with global partners in this direction. We have invested the QIP funds with SLR philosophy for now, while the final deployment will be aligned with PI's long-term strategy, which is underway.

Overall, we are looking at a bright future backed by further progress within the existing operations led by outlined initiatives and new introductions and complemented by forays into new ventures.

With that, I would like to bring my remarks to an end and hand over the forum to our CFO, Mr. Rajiv Batra to dwell on the financial performance.

Rajiv Batra: Thanks, Mayank, and good afternoon, everybody. Hope everyone is safe. I will share the Financial Highlights for the Second Quarter ended September 2020. All comparisons here are with the Q2 of FY20 and on a consolidation basis.

During the quarter under review, we registered 28% growth to Rs.1,158 crore, driven by solid growth in the domestic operations with Rs. 359 crore, and 25% growth on export operations to Rs. 799 crore. Disruptions to operations caused by COVID-19 including movement of goods had very limited impact on our performance as all of our manufacturing facilities are currently operational and utilization are heading back to the pre-COVID levels. EBITDA improved by 45% to Rs. 280 crore, translating to a margin of 24%. This is an expansion of just below 300 basis points, 298 to be exact on a year-on-year basis. A favorable product mix resulted in a better EBITDA performance during this quarter. Profits after tax stood at Rs. 218 crore, higher by 77%, in-line with our better operational performance.

Healthy performance and efficient working capital management helped this transition during the festive times. Our inventory level marginally increased in-line with our projected growth as well as we ensured continuity of operations amid the COVID-19 related uncertainties. As Mayank said, the QIP funds have been safely deployed and our philosophy here is safety. And the final investment will be aligned to PI long-term growth strategy. Our debt-to-equity still remain very comfortable at less than 0.1%.

During Q2 FY21, our total CAPEX incurred so far is about Rs. 116 crore. And current order book that we showed you in the 'Investor Presentation' is maintained at $1.5 billion.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just wanted to confirm what kind of domestic growth that you see apart from Isagro in this quarter, so we can do like standalone comparison, etc., And if you could just highlight a bit on that, that if it is good to go, etc.? And then the second part I had in my mind is that on the CSM growth side of 25%, just wanted to make sure that is there any Isagro component to it because I think you divided your Isagro acquisition to two pieces, one got merged with your main business and then other, domestic business has remained in a subsidiary?

R Ramachandran: Good afternoon. And this is Raman and thank you for that question. So on the domestic front, the PI's growth that has been alluded to, which is in mid single digit. You must understand and I think even in the previous calls, I have been alluding to this, which is we have gone through some portfolio rationalization in order to strengthen the business. In addition to that, if you remember, previous year was the last year for our flagship product FORATE. So the growth that you have seen on the PI side is adjusted to that portfolio effect. Besides that, PI's portfolio has a fairly large proportion coming from early post herbicides, and in the early post herbicide, while the monsoon is extremely good, there are parts of India where the early monsoon and you may know that in the eastern part of India and north the early monsoon was fairly intense and prolonged, which led to a little bit reduction in the early post market for the rice. So that is the second effect. But having said that, I think our flagship products, both NOMINEE, OSHEEN; OSHEEN, has done particularly well in the last quarter, NOMINEE continued to hold and slightly expand its branch. So that is on the PI side. Isagro portfolio is a different portfolio with less herbicide component, and they continue to enjoy high double-digit growth based on a portfolio that is really tuned to fruits, vegetables and plantations. And the plantations in particular markets, like tea have had a healthy kind of recoup so to speak, and what the higher growth that you are seeing is a reflection of that. I think this is again a good testimony to the clear strategy, post acquisition, and the portfolio risk hedging from these two kinds of distribution models that PI has been able to accomplish. I hope that answers the question.

Ritesh Gupta: Yes, thanks for that. Just on Isagro bit, in case you have the last year's numbers, I mean, could you just highlight what kind of growth you'd have seen in this Isagro portfolio on a YoY basis?

R Ramachandran: I am not sure if we report such segment results. I think we can safely say that Isagro's contribution to the overall growth of PI has been around 11%, not the domestic business.

Rajnish Sarna: Ritesh, just to add to what Raman just explained, I think this is also important for us to appreciate that particularly this domestic business cannot be clearly defined in quarterly numbers because of this positioning, product positioning and so many things. So, I think the best way to look at performance is to look at seasonally and September end although not fully, but it still is a better mark on the kharif season performance. So if you look at overall first half domestic performance, and if we even exclude Isagro's acquisition impact on it, I think the domestic has done very well, it is 18% or so, which takes into account all these aspects of products rationalization and production of new products and growth in different geographies as Raman explained. So yes, I mean, if you see on season to season basis, we have done exceedingly well. Coming to your second question on the CSM overlapping with the Isagro, not really. Because this merger thing is still in process which we are expecting by end of the year, and therefore the Isagro piece is purely the domestic and whatever a little bit of institutional sales or some export that they were doing is what is part of Isagro.

Ritesh Gupta: On the CSM side, the growth has been pretty healthy. Of course, it has been guided for. But you did quite well in the first half and you have still the guidance of about 20% growth. So, should we assume that seasonally this year first half has been much stronger and probably second half you might not see the kind of growth rate you have seen in first half, or is there a reason for us to believe that CSM growth probably will be much faster for the full year?

Rajnish Sarna: Obviously, there is some sort of I would say not significant as like domestic, but some sort of timing issue here. So, first half has done well. And we are not expecting this to further intensify or grow in terms of the speed of growth, if I talk about. But, yes, we should be able to maintain the kind of level that we have already achieved. And that is the reason we have kind of guided for 20%-plus kind of growth factoring in all these aspects.

Ritesh Gupta: And like your gross block was flat on a YoY basis or I think on a sequential basis at least in your 1 MPP which is yet to be commissioned. And I think we do not have any announcements for the new plants, etc., and at the same time, I also see you taking initiative to improve the asset turns of the existing plants. So how should we look at like on the future growth side? Are you waiting for the acquisition to fructify for new assets? Could you just give us a broader sense on the CAPEX side as well how do you plan to add assets there?

Rajnish Sarna: So, as we have explained in past that already couple of multi-product plants are under construction. One plant we are already expecting to get commissioned maybe next financial year, two plants which we commissioned earlier this year, we are trying to enhance the utilization of those plants. And yes, as you rightly said, we are also kind of looking at these acquisitions in order to kind of clearly fructify and finalize our longer-term CAPEX plans because you also end up getting a lot of capacity, and in some cases, maybe some idle capacity along with these acquisitions. But yes, given the kind of pipeline in R&D that we have, there are a few more plants on the plan, but we have still not finalized or started or initiated action on ground as yet. As of now, we have a very clear plan for these couple of plants that are in pipeline, are under construction.

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

Probal Sen: A lot of the questions have already been answered. I just wanted a couple of clarifications. One, Mr. Raman helpfully said that the overall contribution for H1 if one looks at Isagro to growth was in the range of around 11%. Now, given that H1 overall consol revenue has grown by around 33% if I am not mistaken, does that imply that without Isagro growth would have been closer to 22%, 23%-odd, is that a fair way to look at it?

Rajnish Sarna: Broadly, yes.

Probal Sen: And the second point was with respect to the order book. Your export revenue and CSM revenue, and forgive my ignorance here, continue to grow strongly, but the order book I believe has remained broadly flattish over the last two to three quarters. How should actually we be looking at this number by the end of this year in terms of how the order book would progress?

Rajnish Sarna: Frankly, we are not aiming to significantly increase our order book in that sense, because order book substantial increase means that we also keep committing on asset built up at the same time. So, our aim is to kind of have a reasonable visibility of long-term revenues and cash flows. And in that sense, if you see having this three, four years plus kind of visibility is already there, and at the same time, we are also kind of optimizing the utilization and throughput from our existing assets. So, the aim here is to kind of gradually improve the returns on the assets and the capital efficiency over a period of time, while at the same time maintaining the higher or longer-term visibility. So, we are basically chasing several objectives here, not the only one of growing the order book. And that is the reason that you see that there is no significant ramp up in order book. But at the same time, there is no significant reduction in the order book despite significant ramp up in the supplies over last say three, four quarters. But we have still been able to maintain this $1.5 or $1.4 billion kind of order book by getting more inflows of orders. I hope this answers your question.

Probal Sen: Yes, that makes it clear. With respect to the QIP utilization, obviously, you have alluded to several products being evaluated actively, and your pharma venture I think Mr. Singhal was helpful in highlighting how that venture is progressing. Any sort of timeline in terms of when we can expect the first concrete transaction to happen, or any sort of flavor you can give in terms of when we can hear more updates with respect to utilization of any of these proceeds?

Rajnish Sarna: Yes, so, for proceeds, I think we had indicated that our objective is to kind of fully deploy these funds in next five, six quarters. But having said so, we are very actively evaluating few options. And it is not only simple evaluation, but we are also working with a global consulting firm in terms of crystallizing and clearly, clearly identifying that which are the sub-segments and kind of we are getting into, what kind of synergies that these acquisition targets will have the kind of technology that we have been working on, and how these targets are fitting in our longer-term strategic roadmap, because it is not only acquiring a business, but kind of growing this business, aligning these businesses with our objectives in PI's business over next 10, 15, 20 years is the kind of roadmap that we are laying and kind of trying to evaluate these targets on that particular criteria and roadmap. So, it is taking little time, but we are very actively evaluating. I do not want to give any kind of timeline to kind of push any speculation on this. But we may expect to do something in next few quarters certainly, and not be waiting for five, six quarters.

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

Bharat Shah: I had a question not on the quarter, but on a longer-term basis. Given all that we have assimilated and built over the last few years in terms of technology, client relationship and the strength of the products, we have also made initial foray into pharmaceuticals and some successful acquisition like Isagro plus the balance sheet is strong. When I add it all up, can we say that we are in a new renewed higher growth phase over next two years for PI, there was a very strong growth phase for a number of years, then in between a couple of years were little more testing, and difficult, can we say we have crossed the hump in on a more sustained basis, we are at a higher and stronger, qualitatively superior growth journey now?

Mayank Singhal: Thanks, Bharat bhai. This is Mayank here. I would say yes, as you know that we have always as a company focused on building long-term sustainable approach to building our businesses which is really backed with the strong capability of our technological abilities, to be making sure that we are in it for the long. Given that, yes, all these investments which have been taking in the past, and stabilizing, putting the existing business to steady state, you achieve that, and some of these are now shaping up to go into the next phase. So clearly, the scale at which we are operating and to go to the next level of scale, we see ourselves in the next three to five years at a different level of play with a more better risk managed, diversified, and leadership in certain areas of our expertise which are backed by strong technological capabilities, and driven by IP. So, if I were to say the next five years, you would call not PI, but you will call it an IP company, innovation-led organization, innovation with the purpose. That is really what PI would stand for going into the future. So that is really where we are. And I am hoping, and I am sure that with such initiatives, this will result in the numbers that maybe so desired to give us the stakeholders the benefits that we see from the organization.

Bharat Shah: These comments that you made, Mayank, would apply not just to CSM but also I presume to the domestic business, and over the period of time, is we traverse on this journey of an improved growth path and superior kind of overall quality of the growth, it will reflect in improved margins as well as more importantly superior return on capital employed going forward?

Mayank Singhal: I would say, it is a balance between or trade off between superior margins or continuous investments into innovation. Those could be the different ways of looking at these things. So it is a balance, which we keep and as we get larger, probably that is the segment which really get into a bigger place. That is really where we are. Yes. And always the objective is to improve return on investments. That is the reason we are chasing these things.

Bharat Shah: That will apply to domestic business as well, is that your comments?

Mayank Singhal: Yes, for sure, domestic business would see a lot of initiatives have been taken with different approaches of go-to-market, our digital initiative, we are looking at different, like solution is one of the smaller ones which has been showing colors now. But we are also looking at a different thought process as we develop newer strategies. Because as the landscape is changing with the regulatory framework and the government policies coming, the potential is phenomenal. And therefore, we are evaluating the right way to go about it.

Moderator: Thank you. The next question is from the line of Sohini Andani from SBI. Mutual Fund. Please go ahead.

Sohini Andani: My question is on the margins where we posted 24% EBITDA margin this quarter. And I think it was mentioned that this was because of the favorable product mix. So just wanted to understand this a bit better that this is a favorable product mix within both the businesses or it is largely more driven by the CSM business?

Rajnish Sarna: This phenomena was there for both, even in domestic business, the product mix was favorable. And then there is also a business mix that what will be the revenue contribution coming from domestic versus export. And also now there is a third element of Isagro. So, yes, both in terms of business mix as well as product mix, it worked favorable for us. And that is the result reflecting in the improved margins. And the third factor is also operating leverage, because if we are growing at the pace of, 30%-plus the operating leverage has also kind of reflected in improved EBITDA margin.

Sohini Andani: Just also wanted to understand what part of this margin is expected to be sustainable going forward, some of the initiatives that you mentioned earlier on the domestic side, and even the operating leverage part seems to be a sustainable thing. But whether from a portfolio mix perspective, again, is that sustainable margins that we can look at?

R Ramachandran: A large part of the margin in the domestic business is related to portfolio, and how much of the portfolio is coming from established brands and also new products. And this is where we feel we are confident because there is at least two to three new products that we plan to launch every year for the next three to five years, and these are largely proprietary products that we have licensed and are either exclusively or co-exclusively developing for the domestic market. So you already read and heard Mayank talk about two new products that have been launched this year. So that is one. And our continued focus on strengthening the quality of business, from a channel management, etc., and the increasing emphasis on digital marketing and reaching out, which is in the last six months we have achieved quantum improvement in the efficiency in marketing through these digital. So, I would say that these are the three initiatives which we believe is something that will allow us to continuously keep an expanding on the margins on the domestic business.

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

S Ramesh: My first thought is, in terms of your results, the tax rate has come down very sharply. So is there some one-off item there, and what is the kind of normalized tax rate we should assume for this year and the next two, three years?

Rajiv Batra: Tax rate you witnessed for this quarter was 19.3% which was down by about four percentage points. This is because of two things; one is better utilization. The second thing is we received a deferred tax adjustment related to SEZ assets which contributes to 2.2% of the declining tax rate. This will stay with us through the end of this year, because it is a carry through. After this, of course, we will come back to normal tax rates which you have been witnessing in the past.

S Ramesh: And second thing is, you obviously have your strategy to deploy that QIP funds on the assets you are evaluating. So, what is the current thought process there -- would you just be using the equity funds or is there a thought in terms of leveraging that to improve the return because a clear concern would be that while your normal business will continue to generate the steady state growth based on the CAPEX and the asset turn, this increase in cash and the networth is going to kind of at least for the short term bring down your returns until you are able to generate that asset turn and then start generating the cash flows. So, while you are obviously in a hurry to deploy that and get some assets in place and deliver long-term growth, are you going to just be using the equity fund or is there any thought in terms of leveraging that?

Rajnish Sarna: Current thoughts are obviously to use the equity fund. But, again, as I was telling earlier that we are still evaluating several options. And a lot will also depend on the kind of option that we finally decide with. And this is not going to be one option as we explained earlier, we are looking at a few options. So depending on the final options, the size and all, we can certainly decide on the mix. But, at this point in time, the idea is to use the equity fund.

Moderator: Thank you. The next question is from the line of Udit Bokaria from Catamaran. Please go ahead.

Udit Bokaria: Sir, wanted to understand in agro CSM business, when we commercialize any product from an R&D stage, what is the range of yearly annual revenue that we can get from that product, and what are we expecting in the pharma division?

Rajnish Sarna: That varies from product-to-product and molecule-to-molecule. So there is no very straight answer today that what is the kind of revenue in first year or second year that that you can expect from commercialization, because there are products at different stages, there are products of different scale and different segments. So one product is a broad spectrum which is getting launched in five, seven countries altogether and there is one product which is getting launched in only one country, and it is specific to a particular crop. So the potential, the size, all these varies from product-to-product.

Udit Bokaria: Just wanted to understand if let us say we are able to commercialize one of those 10 R&D products like, what is the range of annual revenues that we see maybe at the end of three years we can expect to see from those products which are currently in the R&D stage? The range will be fine. I understand because each molecule…

Rajnish Sarna: Yes, a lot will depend on the final process and the success of these molecules because what is running at R&D is also not necessarily that it gets commercialized. But I mean, given our past experience, it may range from several million dollars to….

Mayank Singhal: Let me answer in a very simple way. Fundamentally, when we are giving guidance of growth, we are taking and factoring all this to give that guidance. And that is how the company drives it also. If we have to achieve this growth, which is how was the market growth and then what are the pipelines and molecules how do we ensure that the growth continues, and then we give the guidance, that is taking into all these additions that are coming in, and what is coming, going out.

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

Abhijit Akella: First, in 1Q we had given a breakdown of Isagro revenues, Rs.99 crore for the quarter, broken down between Rs.30 crore exports and Rs.69 crore for domestic. Is it possible to just share the same breakdown for this quarter as well?

Rajiv Batra: I will give it to him, I have it, but in order not to take up time, I will send this separately.

Abhijit Akella: Second thing was just with regard to the CAPEX, for the first half, it seems to have been a little bit slow and understandably so probably because of COVID. But from a full year perspective, what is the kind of CAPEX experience we can work with?

Rajnish Sarna: So we still have approved plan of close to Rs. 600-odd crore. Obviously, some of these projects have delayed a bit because of COVID situation. So there could be a carryover to the next year. But yes, the approved plan is close to Rs.550, 600-odd crore. And maybe Rs.100, 150-odd crore, I do not know exactly, but some of this will certainly get carried over to next year.

Abhijit Akella: And just on the MEIS incentive that we have been booking, which was Rs.50-odd crore last year, what is the treatment that we are following now, are we still booking something in this quarter, and what do you expect for the rest of the year?

Rajiv Batra: As you are aware, rules have changed. So between September to December, the maximum eligibility will be Rs.2 crore. That has all been accrued. So to your point, what we used to get between Rs.17 crore to Rs.18 crore in the quarter, will no longer be with us if the rules do not change. We are also aware that government has announced that they will come up with an alternative scheme. We are awaiting details that have not yet come. So there may be some replacement to what extent the policy will, only time will be able to tell us. So we are waiting on that.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal. Asset Management. Please go ahead.

Niket Shah: I had only two questions: First is if I have to look at the Rs.2000 crore QIP money that you have raised, and over and above that in the next two years the cash flow that you would generate from your business, at about Rs.3,000-odd crore, and last year, our gross block was about Rs.2,400 crore. So we are looking at almost doubling our size of gross block either through acquisition on through organic expansion in the next 12-months to 18-months, would it be possible for you to give us some sense that how much of this will go towards acquisition, and how much of this will go towards CSM expansion? And the second question is, is it safe to assume when you are looking at acquiring pharmaceutical businesses, would that be a substantial higher margin than our existing CSM businesses? Those are the two questions.

Rajnish Sarna: First question on break-up, frankly, this would be very difficult at this point in time when we are evaluating several options, that how much of this Rs.2,000 crore plus the accrual over next few years will go towards the acquisition and for organic growth, it is really difficult to answer at this point in time. And then again, as I explained earlier that both of these capital allocation areas have overlapping impact because sometimes if you acquire something, maybe you kind of improvise your organic CAPEX plan and likewise. But yes, the whole idea is that given the kind of pipeline of products that currently we are working both in our CSM exports and domestic, and at the same time also in the pharma case, the kind of pipeline that we are working and the kind of technology that we are wanting to leverage, there is certainly going to be enough deployment, and we are seeing opportunities to deploy this kind of cash generation for a sustainable profitable return. And this is where we are evaluating. But, yes, of course, it would be difficult for me to kind of give you a break up at this point of time.

Niket Shah: But Rajnish sir, broadly, we will be able to deploy this additional Rs.2,000 crore plus whatever we are generating from operations in the next 18-months, is that a safe now?

Rajnish Sarna: Yes, so what I can tell you is that we have in sight opportunities where we can easily deploy Rs.3,000 crore and sustainably generate returns better than what we are doing today. This is what I can tell you. But, yes, of course, this will be a matter of detailed evaluation and then kind of taking a decision and then maybe we will be able to give you a clear perspective on how much goes in acquisition and how much goes in organic growth.

Niket Shah: So sir, additional Rs.3,000 crore will come at higher ROC, that is the point?

Rajnish Sarna: That is the objective also that currently we are operating at certain returns both in terms of margins as well as asset return or investment return. And the objective is that barring these initial integration periods of a year, year and a half or two, we should certainly be improving these returns going forward. This is the objective and also a very key criteria of evaluating and assessing these targets that we are looking at. Because apart from what we will be getting out of these standalone businesses, I think the key important criteria for us and the parameter for us is that what is that synergistic value with our own technology that we will be able to create with these targets, which will create the incremental return for us, and also turn these acquisitions into a smart acquisition.

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

Varshit Shah: My question is more around the CAPEX. I think we have one MPP getting commissioned in this year if I am correct. So, out of this Rs.600 crore spend, I think roughly half of it would be commissioned this year. Can you give us some timeline on how the balance would get commissioned in next year and what is the organic CAPEX plan for next year apart from acquisitions?

Rajnish Sarna: Yes, so the plant which was supposed to be commissioned this year, got little delayed because of the COVID situation and we had to prioritize several other projects and which is what we are now expecting to either get commissioned maybe by the fag end of this year or first quarter of next year. So, that is the update on that particular plant. Besides that also, there is another that we are currently working on, which will obviously will get commissioned maybe later part of next year or most likely in 2022, that is the current assessment on that. And in terms of your second part of your question in terms of CAPEX plans of subsequent years, so, as I said, some part of current year plan of close to Rs.600 crore will get carried forward to next year. And then next year, the early estimations are that we will be again kind of looking at close to Rs.400, Rs.500-odd crore kind of CAPEX. A lot will also depend on the final acquisition that we decide because it may also have some bearing on this organic growth CAPEX plan.

Varshit Shah: Second question is on the margin. So, if we see on a gross margin side, we have expanded by almost 170 bps and I understand is Isagro has a major contribution on this because standalone Isagro portfolio gross margin would be upwards of 50%, 55%, maybe not exact, am I right in assessing it, gross margin expansion one which you will alluded to that on account of product mix, change and rationalization, the portfolio says it because also contributed by higher margin products from the Isagro portfolio in the domestic segment and hence you are seeing this uptick. I am alluding more to gross margin side because EBITDA will also have some operating leverage element?

Rajiv Batra: Gross margin here is actually on account of the mix that we experienced, which I think Rajnish clarified earlier at the start of the call, both on the domestic and on the export side. That is the leverage that we witness; will obviously change the EBITDA. In terms of future guidance, our EBITDA guidance which what we would like to guide you, is same. So, we are not saying that you read in the spreadsheets, like in the incremental 1.5%, but we would rather go at this stage because we do not which way mix will go.

Rajnish Sarna: Just to add, the reason for that is there is a change of product mix every half year or quarter. So on a safer side and this is how we have also guided always that we are very comfortable in terms of guiding for 22% to 23% kind of EBITDA margin on a sustainable basis. While yes, in certain quarters, you may see a spurt in EBITDA margin or gross margin, but on a longer term sustainable basis, this is what the levels that we will get.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: My question is with reference to the CSM part of the business which you highlighted, earlier, can you give some more insights into this that over a period of two, three, four years post the acquisition whatever you are looking at, how the business will look like from the risk management perspective?

Rajnish Sarna: As you see, this is the uniqueness of our business model that we are kind of trying to always derisk. So, while on one side, we have the domestic business which is kind of always dependent on vagaries of monsoon, on the other side, close to 65%, 70% business is exports, which is not dependent on Indian kind of monsoon and performance of rainfall or flood or anything. So, this is a particular uniqueness in our business model. On the other side, if you see even in domestic side, which Raman may also allude, is that there are different crop segments that we are targeting and one of the advantage of the acquisition of Isagro was that one area, which we were not focusing or we were not pushing too much, this fruit plantation and vegetable segment will get focused and we are aiming to be one of the leading players there. So, that will certainly kind of again reduce risk of our dependent on certain field crops like rice or wheat. Same way if you look at our CSM business, while, yes, given the kind of nature of the business model, it is concentrated on say 10, 15 customers or maybe 12, 15 products, but over the years, we are diversifying and going beyond ag chem., therefore, the concentration both in terms of customers and in terms of products is reduced over time, and with this diversification into pharma and other specialty chemical areas, obviously, this concentration risk will further reduce. And so, therefore, these are the kind of initiatives which we are continuously taking year-on-year to kind of keep reducing or making this whole business model further robust so that we can on a sustainable basis kind of grow this profitably and also reduce the risk.

Rajesh Kothari: And my second question is, generally speaking, when one do acquisition particularly to further diversify customer perspective or business segment perspective, at times it takes a longer time to get that payback period, maybe fifth or six or seven or eight year kind of thing, so then how it will lead to improvement in ROCE or are you trying to say that whatever acquisition you will do, it will be EPS-accretive from year one?

Rajnish Sarna: Well, it may not be EPS-accretive from year one, obviously not, but yes, our aim is and objective is that maybe from second year or early third year, it could be EPS accretive for us. The key thing here is that what is that we will add to this business from our own efforts and our own technologies because obviously the seller will factor in the value or the premium in the price for selling this business. And if we have to make this EPS-accretive at early stage, it is going to depend on what we will be able to do and add to that standalone business, and this is what we are very critically evaluating and some of these targets where we are finding a lot of good synergy with what we are doing.

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

Surya Patra: Just in the presentation you have mentioned about your pharma foray. What you said is that already about 10-odd intermediates on which you already started working on that. So, just if you can indicate whether these are like based on customers requirement or whether these are like custom synthesis product opportunities or you yourself have identified the intermediate and have already forayed or initiated your activities on the pharma side?

Rajnish Sarna: Well, it is a mix of both I would say that some of these have been identified basis the kind of technologies that we have developed over time, and a few of them are obviously customer enquiry that we are working.

Surya Patra: So, if this is the case, then, are we thinking about building capacity relating to this then, which is the part of the same question only or the existing capacity will be sufficient to handle this also?

Mayank Singhal: Not existing capacities. Actually, this is one of the reasons that we are looking at these acquisition opportunities so that we can short path this whole process of kind of building assets and spending time there and getting regulatory approval and all that. So, if we can find good targets where apart from the target own business, if we can also kind of implement our own business plan in those assets, is where kind of we can create greater amount of value in a much more expeditious manner.

Surya Patra: So, that means this is to expedite the process only, that is what I believe?

Rajnish Sarna: Absolutely.

Surya Patra: And secondly, sir, on the export side, if you can just give some sense, obviously, there is a kind of very strong performance on the export side that we are witnessing, and that is the general trend also we are witnessing from a few of the global competitors who have reported their results. So, is there a sense of better pricing scenario or strong demand scenario in the export market that you are witnessing so that is why there is a kind of a significant volume as well as pricing trend that we are doing you are facing currently in the various global region, is that the trend that you are witnessing?

Rajnish Sarna: Well, we certainly cannot generalize this, but, yes, we are seeing particularly for the kind of products that we are operating, we are seeing good traction, we are seeing good demand scenario despite the COVID situation and many of the geographies we have seen that the demand scenario has been positive and the kind of commentary that we have got from our global customers is that they are not seeing any impact of these disruptions of COVID and others. They are also expecting these demands to continue for at least for a mid-term because they are also registering some of these products in different other countries, so, they are expecting to sustain the kind of demand scenarios that they are projecting.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset. Please go ahead.

Ankush Agrawal: Two questions. Firstly, in case of the pharma opportunities that we are targeting, so, are these commercial molecules or we are also working on projects wherein the molecules are under the clinical development phase and like how do you look at over time what kind of business opportunities are you targeting in a pharma business that you will be catering? And secondly, if you can give the stat for how many products you have commercialized in both commercial and domestic businesses here in the first half?

Rajnish Sarna: So the first part, yes, most of these are already commercialized products. So, these are not the pipeline products or products in the trials or something. And for that, we are targeting some of these intermediates that we are currently seeing.

Ankush Agrawal: So would it be fair to assume that overtime like once we push into the business, the kind of project that we will be taking would be primarily wherein we are the second or third supplier, right?

Rajnish Sarna: Yes, but the key thing there is the technological differentiation that we would be doing in terms of improving the quality or the cost or other parameters that we will be significantly improving. So that is the kind of differentiator that we will be creating for ourselves in this process. That has always been the approach not to get into a situation, that is there are already four, five, 10 players, we also get into that, that is not the kind of approach that we have. Coming to your second part of question, can you please repeat?

Ankush Agrawal: Can you tell the stats for how many molecules you have commercialized and how many domestic products we have launched in the first half?

R Ramachandran: On the domestic front, first half, we launched two products. Both of them are for rice, one is a herbicide, Londax Power and the other is a fungicide.

Ankush Agrawal: And on the CSM?

Rajnish Sarna: On CSM side also, we have commercialized one product, and there are a few products lined up for the second half.

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

Rohan Gupta: Sir, I just reiterate some numbers on Isagro. When you acquired, it was almost Rs.350 crore acquisition with the Rs.300 crore revenue and almost low double digit margins. Just after a year I think that now, with the annual run rate you have already achieved close to Rs.450 crore sort of turnover, and I believe that margins have also been pulled over and similar to the PI, so that means roughly Rs.90-100 crore sort of EBITDA on annual run rate. So, that means that if we break a number further, when we are talking about almost 3.5x EV/EBITDA multiple which we have acquired this company, absolutely great acquisition sir, and a perfect fit for your company and I think that utilization level are yet to go up and maybe the numbers from Isagro can be better next year also. So, this was just a one-off opportunity you see that you have got. Now, you have almost Rs.2,000 crore in your kitty. Mr. Sarna, you keep on reiterating that you have many such opportunities and very attractive opportunities, which you are looking for and they will be implemented in terms of acquisition over next one year. So, when you talk about these opportunities, are they similar opportunities where the performance of those companies maybe right now not so great, but where the PI's leadership and under your integration that the potential for those acquisition will be much, much higher, and that is what the way forward for PI, that is what I wanted to understand sir?

Rajnish Sarna: So first of all, Rohan, thank you very much for your kind words. It is heartening to hear appreciation from analyst like you. Thank you very much. Yes, I mean, that is the whole idea, Rohan, that we have to find smart acquisition, not acquisition for the sake of acquisition that we have shortlisted some three, four pharma assets and decide which one is better than this and then go for it. That is not the approach that we are taking. As I explained to the earlier participants, we are taking pains in terms of having rounds and rounds of discussions internally, have engaged and spending money in terms of hiring a global consultant in giving us outside perspective, future perspective, that what we are getting into is not for next two, four years, I mean, this is what we kind of create for next few decades like what we did in case of Agchem CSM, the kind of new growth drivers that we want to create for the organization for next several decades and with that purpose and with that objective, we are certainly spending a lot of time in crystallizing, and clearly identifying the target having good synergies with what we are doing in PI and where we see significant amount of opportunities of adding value to the standalone business that we will acquire. And therefore, obviously, the seller will always sell any business at a value for what they are creating and the profitability potential that business will have. But, if we can add value to it, as you alluded in case of Isagro, then these multiples will completely look different. And that is the kind of approach and idea that we have, and in a very focused manner, we are looking at a few opportunities where we believe we can have a similar kind of value creation opportunities or propositions to create in next few quarters.

Rohan Gupta: Just again, sir, from my side, a small question. Sir, you mentioned that utilization level have already achieved the pre-COVID. I believe that with almost 30% revenue growth on a first half, I think that our utilization level now across the assets are close to very optimum level because last year you mentioned that the utilization level can go up another 15% to 20%. So, till the time we do not see any acquisitions or inorganic growth opportunities coming in place, do you see that if there are any delays, then maybe after a year or maybe in a near time for next three to four quarters, our growth may be restricted because of the capacities or we have enough to grow or keep the growth momentum at 20% to 25% for at least next six to eight quarters?

Rajnish Sarna: We certainly have clear visibility of sustaining this kind of growth for next six, eight quarters as you mentioned, and that is coming from the kind of pipeline of products that we have, the kind of products that we are currently working, and the kind of potential of growth in these existing products that we are seeing.

Rohan Gupta: So capacity is not the constraint?

Rajnish Sarna: Not really. There is good scope and an opportunity to improve throughput in the existing capacities also, which is what also we are working very actively.

Mayank Singhal: To add to that, Rajnish, as you mentioned earlier, there are opportunities and that was a question which was there, where we will be looking as to how we will actually change the way the capacities look. And I think some of these initiatives have shown success, and we are further driving them to ensure that we are quite confident in the next one or two years, we will be able to enhance the capacity without really putting in capital. That is really where we are focusing.

Moderator: Thank you. The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: Just wanted to understand wheat herbicide that you have in your presentation. In terms of what is the size of the opportunity herein, how are we really positioned and what is driving growth the portfolio? This is basically in the P&L. I notice the gaining profitability, it is a small number, but it has come off versus 1Q. So, is there anything to call out there, was there any some sort of a one off in the first quarter or something?

R Ramachandran: So the first part of your question is what is the opportunity for the wheat herbicide, right. So look, the wheat herbicide that has been launched, this was launched last year, it is called "Awkira", it is specifically addressing a weed in wheat crop in Punjab and Haryana called "Phalaris", which has largely developed and to a great extent develop resistance to a number of other existing herbicides that are currently being used. And now, the opportunity itself is fairly large in terms of the size of the market. But we have to look at it with some caveats which is that the application method is very different from what the current conventional practices are. It is what is called as an early post, which is immediately after sowing. So, in order to facilitate this, one of the things that PI has done is to heavily invest into application equipment. We have some very hi tech modern application sprayers that we have imported from Japan and these are facilitating rapid adoption of the herbicide. So I hope that answers part of your question. The other question was about margins, was it?

Pratik Rangnekar: The other question was on the lower profitability that is visible in the JV line item in the consolidated financial this quarter. So, I was wondering whether there is one-off this quarter, the profitability has gone down by about Rs. 50 crore or flat this quarter.

Rajnish Sarna: Rajiv, have you understood the question and if you can answer this?

Rajiv Batra: Question is not clear. So, I would recommend that you send us this question and I will answer you because I cannot relate to any JV acquisition here. So kindly send us the question.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So, my question is regarding the two products we have launched. Can you discuss more about the key potential of the products and how many years of patent left for this molecule?

R Ramachandran: Londax Power is actually a product that we have inherited from our partner, Kumiai which they had acquired from DuPont. So, this is actually an existing brand that has a very-very strong brand position in certain markets in both South and East of India in the rice crop. So, it is actually something that is a new branded product that we have inherited and with our strength in the rice markets, we hope to expand on this. And Shield is actually also an existing product where through formulation we have brought in some innovation in terms of greater efficiency. And the patent on that is currently being sought.

Sumant Kumar: How many years of a patent is left for this product?

R Ramachandran: On these two products, there is no patent right now, these are not patented products.

Sumant Kumar: So, 9(4) product?

R Ramachandran: Londax Power is a 9 (3), it is originally a DuPont product, which they divested to Kumiai, and for the Indian market, we are exclusive distributors of this brand. And Shield is an in-house R&D innovation of an existing molecule with new innovative formulation that has been specifically launched for a disease control in rice.

Sumant Kumar: So can you tell me what is the molecule here in the Shield?

R Ramachandran: I will get the details and write to you through.

Moderator: Thank you. 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 to come to this call today, and look forward to your continued support. And Wishing You All A Very Happy Coming Diwali and Festive Season. In these challenging times, I hope this brings an upliftment to all your moods and happiness and joy around your family and best of health and safe journey ahead. Thank you.

R Ramachandran: Thank you.

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