PI Industries Limited

Q1 FY20 Earnings Conference Call Transcript
July 26, 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the PI Industries Q1 FY '20 Earnings conference call. 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, sir.

Nishid Solanki: Thank you. Good morning everyone, and thank you for joining us on PI Industries Q1 FY '20 Earnings conference call. Today, we are joined us by senior members of the management team including Mr. Mayank Singhal – Managing Director and CEO, Mr. Rajnish Sarna – Executive Director and Mr. Subhash Anand – Chief Financial Officer.

We will begin the call with key thoughts from Mr. Singhal, thereafter; we will have Mr. Subhash Anand, 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: Before we begin, certain statements made or discussed on the conference call today may be forward-looking statements, and a disclaimer to this effect has been included in the press release 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. A very Good morning to everyone, and thanks for joining us in today's call post-earnings discussions. I'm once again pleased to share that PI yet again has delivered a healthy performance driven by the growth in exports. Just to share quick highlights of Q1. Revenue grew by 24.5%, EBITDA saw an increase by 28% translating to margins of 20.1%. We have been able to achieve this earning growth in Q1 despite softening onset of domestic seasons, mainly driven by the uptick in demand from global customers from several of our exports products.

On the export front, we continue our efforts on debottlenecking our existing capacities and addition into our new plants, and able to ramp up the quarterly rate of exports over the last few quarters with the commissioning of 2 more plants in the fiscal year. The current export volume will further increase in the following quarters. We have commercialized one new product in Q1, and R&D pipeline remain exciting with 2 to 3 new commercializations in line with our plans.

On the domestic front, all agro-climatic conditions have not been conducive in Q1 with delayed monsoons, erratic rainfalls, disrupting sowing patterns and pace. Besides, the AgChem industry also witnessed constrained demand, owing to lower commodity prices and weaker rabi season resulting in high inventories in the channel. However, for the branded portfolio of products, we were still able to do reasonably well on a higher base of growth last year. We introduced Cosco SC, an insecticide used for multi-crops this season to complete the granular formulations which was launched last year.

Our branded portfolio continues to attract dedicated audience amongst farmers seeking to sustainably enhance the farmer productivity. Progress in latest technology products in R&D is satisfactory, and we surely open up new horizons for the company in the coming years.

Outlook for the year 2020 remains robust with good visibility of order book for exports. The monsoons are delayed, have concern on most of the important agricultural areas, but now, the swing has been improving from the last 1 month. We are consciously monitoring the overall movement of trade inventories. We expect the consumption to pick up in Q2 or Q3, along with increased sowings in domestic business which should also be reasonably well in the end of the year.

With that, I will request our CFO to continue, Subhash Anand, to take the discussion forward. Thank you, and over to you, Subhash. Thanks.

Subhash Anand: Thanks, Mayank, and Good morning everyone. I'm glad to share financial highlights for the quarter of financial year 2020.

During the quarter under review, our total revenue stood at Rs. 754 crore, growth of 24.5% as compared to same period last year. Growth was mainly driven by exports, which is 59% increase on a Y-o-Y basis. Export revenues were up from Rs. 314.4 crore to Rs. 500.7 crore as a result of increased demand for commercialized molecules as well as additions of new molecules.

Domestic sales reflected a decline of 13% during the quarter, down from Rs. 291.3 crore to Rs. 253.4 crore. On account of delayed and erratic nature of southwest monsoon and high trade inventory that led to dampening in industry demand.

EBITDA for the quarter stood at Rs. 151 crore, higher by 28% Y-o-Y basis, while the margin came at 20.1%. This was despite the pressure from the domestic business and ramp-up in costs pertaining to commissioning of new manufacturing plant.

Profit after tax for Q1 stood at Rs. 101 crore as compared to Rs. 82 crore in the corresponding quarter last year, representing a growth of 23.2%. Improvement in our performance has further strengthened the balance sheet position for the quarter. Our net debt to equity continues to be nearly 0 level and cash surplus at Rs. 165 crore.

I would like to reiterate that we remain confident of delivering 20%-plus growth, revenue growth in FY20 with 50 to 100 basis points improvement in the EBITDA margin as guided earlier. Our current order book stands firm at $1.4 billion. CAPEX for the current year continues to be in the range of Rs. 400 crore to 450 crore, while we have spent Rs. 160 crore CAPEX so far in Q1 FY20.

With that, I conclude my remarks, and I would now request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you. The first question is from the line of Ritesh Gupta from AMBIT Capital.

Ritesh Gupta: Subhash, if you could just tell us on the CAPEX side. Is there an upgrade? Because I think you were talking about Rs. 300 crore - Rs. 350 odd crore CAPEX in the last call. And if you could just give us a sense of like what could be the FY21 CAPEX, like if you have any visibility on that side as well. And I believe that this is basically for the 2 plants that get commissioned by the end of this year?

Subhash Anand: Ritesh, the CAPEX guidance continues to be same. We are maintaining Rs. 400 crore to Rs. 450 crore range of CAPEX this year. The same which was communicated even in our last conference call also. So, no change in the guidance.

Ritesh Gupta: Okay. And on the outlook on the domestic side, what's the outlook on that side for the full year? How does it change after the first quarter being weak?

Mayank Singhal: Right. So, if we were to look at the domestic side, we would look at obviously the season which has been delayed, the sowing patterns have been weak because there has been a weakening in the whole agri sector over the last couple of years. We are hoping that if it's a good monsoon and with a bunch of new products, we should be able to catch up. And I think overall, if I see the domestic business in India, I would not be looking for any aggressive growth but would be pretty flat to better, if I was to overall look at the position for the country in the agrochemical sector.

Ritesh Gupta: Got it. And just a last bit on the CSM side, I mean, there has been incremental worries around kind of the trade wars, etc., leading to some delay in the recovery for the agrochemicals market and kind of the top global guys like BASF, etc., have reported, and they're guiding for a pretty bad quarter this time and same goes with ADAMA as well. So, if you could just put that in perspective on how does it impact your business? What kind of inventory levels are there on the product side at the global level? If you could just give us some perspective on that side, that will be helpful.

Mayank Singhal: So, if you look at our business, based on the order book position, we still continue to maintain our guidance on that. But if we look at the opportunity area that we are working in, it is more on the innovative side. And there could be some of these products in stress markets which may continue to grow, unlike where there's a huge strain and the challenge which comes along the generic products. So, the areas that we have chosen, we still see the positives. They may not be super positive and maybe positive, and we are pretty confident that the guidance that we have given would be maintained.

Ritesh Gupta: Okay. And you have just added a new line in the press release, the fine chemicals bit. So, if you could just update us on the fine chemicals side. What's happening on that side, R&D? And probably we were looking for some pharma acquisition as well. So, if any update on that side?

Rajnish Sarna: Well, currently, we are evaluating certain options, but nothing at advance stage at this point. So, as we have been telling in our previous calls as well that, we are very actively looking at various opportunities of inorganic growth and we shall certainly update the investors as and when we reach to an advanced stage.

Ritesh Gupta: Okay. And just thoughts on the fine chemical side? I mean, what kind of products you are looking at? What areas you are looking at?

Rajnish Sarna: So, as we have been telling that we are gradually diversifying from pure AgChem play to other specialty chemicals also, like electronic chemicals and imaging chemicals, pharma early intermediates, not the advanced APIs but early intermediates. So, some part of work is already going because the chemistry platforms are common. And since we have been working on some of these new technologies, we are also getting some headway in these other verticals as well other than agrochemicals.

Ritesh Gupta: Okay. And when you say headways, is it like you are still working on building the product capabilities or you are kind of working with clients on some bit of trials or something like that?

Rajnish Sarna: So, we have several products in our R&D pipeline and some of these products, we are also working at pilot stage. So, a small quantity, like, 5 tons-10 tons kind of volumes. These are not very small also but these are not large volumes. But this is the stage we are at this point.

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

Abhijit Akella: Just one clarification on CSM first. The revenue growth here is very strong this quarter, 59% in the context of your 25% growth guidance for the full year. So, just to understand whether there has been any front-ending of the revenues this quarter? And is there a chance that you could exceed your guidance for the full year?

Rajnish Sarna: Well, frankly, this is looking a little steep because if you see our last year's same quarter, we were almost flat. And therefore, once we have ramped up the quarterly run rate, this is looking a little steep in the first quarter. But as you would see that in the following quarters, last year also, we had registered 30% to 40% growth. So, this sort of steep growth won't be there but as we mentioned earlier that we are still confident of registering 20% to 25% kind of growth on an annual basis.

Abhijit Akella: Got it. Understood. And Mr. Singhal, on the domestic business, had just made a comment about expecting the industry to be flat to slightly better. I just wanted to understand whether that was for the Q1 or the Kharif season? Or is that an outlook for the full year?

Rajnish Sarna: No. So, I think the idea was that obviously it is not easy to kind of predict the annual performance because right now, we are only talking about the first Kharif season. So, although the monsoon got delayed and then there is erratic rainfall, but in the first 15, 20 days of July, there is a significant improvement in terms of sowing. There is increased sowing now. So, we are hoping that the loss of revenues for the industry we are talking here, loss of revenue should get majorly recovered in the remaining Kharif season.

As regards to Rabi, I mean, again, depending on how this rainfall and monsoon performance goes and the reservoir situation, overall sowing situation in Kharif, lots will depend on that, than finally, what is the kind of sowing plans and how aggressive the sowing plan comes out for Rabi. But yes, for Kharif, the expectations are that it should, by the end of Kharif season, it should be able to balance the overall revenues. And there could be a low single-digit growth also if everything goes as it looks.

Abhijit Akella: Right. And that's for the market, I presume? And for yourself, you would expect to be slightly better than the industry in the domestic business?

Rajnish Sarna: Yes, marginally. I mean, again, depending on the overall situation, I'm expecting that with this increased sowing; things have started moving from starting July. So, we also expect that by the end of season, I mean, lower single-digit kind of situation should be there. We also have plans of introduction of new products in the next half. So, overall, for the year, we still remain positive. If not high double digit, we should still be able to achieve high single-digit kind of growth that we are anticipating, at this point.

Abhijit Akella: Sure. Understood. And one last thing and I will just get back into queue. Subhash, if you could just help us with the Ind AS 116 impact on EBITDA and the D&A and finance cost lines?

Subhash Anand: Okay. Ind AS 116 impact in these financials on EBITDA is 0.5%. The EBITDA was improved by 0.5% because of Ind AS adjustment. But bottom line is neutral because the same cost has got distributed between interest and depreciation.

Moderator: Thank you. The next question is from the line of Aditya Jhawar from Investec.

Aditya Jhawar: In continuation to the previous participant's question, we are seeing some headwinds in terms of the Midwest flood and also the heat wave in Europe. And our growth has been pretty outstanding. Are you getting a sense of any deferment of shipments from the customers? Because what we understand is that if the farm economics is also not favorable, generally, there is down trading towards generic products. So, are we seeing some kind of deferment in second half of this year?

Rajnish Sarna: Not really. As we mentioned, yes, there are kind of mixed results that we are seeing. Some of these companies have posted flat or some de-growth. And the commodity prices and all that, yes, absolutely right, but at the same time there are few companies who have done reasonably well also. And ultimately, it all depends on the kind of product portfolio that we are dealing in, because several products are doing very well. And we have got very clear visibility, not only for this year but for coming few years. That is that, at this point in time, we are not kind of experiencing any deferments or kind of reversals. So, we are continuing as per our plans and for these products, our customers are also seemingly very confident of product and raising these volumes.

Aditya Jhawar: Okay. Sarnaji, if you can help us understand the visibility in terms of your expectation of growth from existing molecules. Or are you seeing a pipeline of that new molecule will contribute in the growth, commercialization of new molecule in second half of the year and next year? If you can break up the visibility that you're seeing.

Rajnish Sarna: Yes. I mean, I can try, maybe not in specific numbers but what I can tell you is that for the current year and next year, there is absolute clear visibility of the existing products growth, and it should be more than 75% odd of the existing is coming from there. We are also introducing new products. Already in first quarter, we have introduced one. In the second half also, there are a couple of products that we are adding. But as we have explained in past as well that in this business model, initial years are not very high volumes of these products that we introduce. But yes, there is very clear visibility of where this growth is coming. So, this is about the commercialized products.

Apart from this, we have a very robust R&D pipeline. Because of the current uncertainty scenario in China and also like the other gentleman was talking about, these trade wars resulting in some sort of nervousness at these global companies, there's a lot of business, new inquiries, which are flowing into this part of the world. And PI being one of the frontrunners in this industry, I mean, in CRAMS business, we are also kind of getting benefited. So, the R&D pipeline is also quite robust. The progress is also good there, and the conversion has also improved over last couple of years. So, that would also benefit and also helping us in improving the overall visibility of this business model over next 3 to 5 years. I hope this answers your question.

Aditya Jhawar: Yes. Absolutely. That was extremely helpful. Last question. In one of the comments that Mayank made was on R&D-led new growth avenues. So, if you can elaborate a little bit on that.

Rajnish Sarna: Well, I tried to answer this in previous participant's question that, apart from agrochemicals because we are now kind of taking a technology approach, not the product approach. So, we are not focusing our R&D work on products, rather, we are focusing on specific technologies. Now what happens that these technologies and platforms, they're also giving us opportunity to work in other verticals because these platforms are having inroads in those other verticals also, like pharma, imaging chemicals, other specialty chemicals. So, because of that work we are also getting now good inquiries. A lot of work is happening in R&D at kilo pilot scale and all and we expect that with the decent work in that area, it would certainly open up new opportunities for us going forward.

Moderator: Thank you. The next question is from the line of Madanagopal Ramu from Sundaram Mutual Fund.

Madanagopal Ramu: My first question is, you mentioned that the inquiries are looking good. We know that China is going through the phase of setting things right. So, given these scenarios, you have maintained your CAPEX, but are we little cautious that we don't want to put more on the table given the global scenario? Or you think the work in progress and there is a possibility that CAPEX numbers can inch up as we move forward closer to the end of the year?

Rajnish Sarna: Yes. So, as you would know that for years being in this business model, we are always very cautious in terms of putting a seal on ground. And that is the reason that we always get into long-term understanding before putting a seal on ground. Yes, because of spurt in R&D pipeline, a lot of good opportunities are coming our way. And as we mentioned during the last call also, that this CAPEX plan of around Rs. 400 odd crore is based on our current estimates of new products commercialization and ramp-up in existing product volumes and all that. And if some more products of big volumes also, gets converted, then of course, yes, I mean, by following our regular process of getting into long-term understanding contracts and all, we may review our this CAPEX plan, certainly.

Madanagopal Ramu: Okay. Second is I see a gross margin contraction this quarter, this might be due to mix, but generally what is your sense on the raw material front on both these businesses?

Rajnish Sarna: Yes. So, this is because of some sort of issues and uncertainties in China. I mean, again, a mixed bag. Some raw material cost has gone up, some raw material cost has come down. But it is primarily because of product mix that the gross margin is a little lower in this quarter.

Madanagopal Ramu: In terms of cost.

Rajnish Sarna: Yes.

Madanagopal Ramu: But you don't see any threat to the margin. We can maintain that. Or is there chance of margins improving in the second half?

Rajnish Sarna: Yes, I mean, as I have said that we should be able to maintain it.

Subhash Anand: Yes, we communicated that in EBITDA margin, we do see 50 to 100 basis improvement full year. So, we are still holding our guidance on that basis.

Madanagopal Ramu: Is this 50 bps due to the Ind AS 116 change or over and above that?

Subhash Anand Over and above that.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: My first question is relating to the 2 new plants that are coming up and the 2 ones that have just started up. Is there any of the product that finds application in the pharma space as well?

Mayank Singhal: No. There are some intermediates which are going to other specialty areas but not in the pharma space yet.

Vishnu Kumar: Got it. And secondly, just wanted to understand on the wheat herbicide. Are we on track to launch for the Rabi season this time?

Mayank Singhal: Yes. We hope to do that based on the approvals coming in time from the regulatory authorities.

Vishnu Kumar: Okay. And one final question to Mr. Subhash. If you could just give me the product revenue billed but not dispatched because of the accounting change we have started for FY19 for this quarter.

Subhash Anand: In fact, now, these numbers have pretty normalized, when I say, if I see March quarter and June quarter, the number remains broadly same.

Vishnu Kumar: And that would be roughly, what will be the number?

Subhash Anand: No. Vishnu, now it's the standard way of reporting and this number is part of standard reporting. So, it's not right to track this number quarter on quarter, unless it sees a major variation, and we are not experiencing major variation in this.

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

Rajesh Kothari: My first question is with reference to the domestic market. You had one product, the wheat herbicide. What is the status of that?

Subhash Anand: In fact, we got the approval, so the product is planned for Rabi and we are going as per plan.

Rajesh Kothari: Okay. Fine. And the last question is since you mentioned that you have a strong visibility, typically, what kind of asset turn one should assume over a period of, say, 2, 3, 4 years? And how do you see the ramp-up of that?

Rajnish Sarna: Well, it varies from product to product, we can't generalize. But yes, average as we have explained in past as well that's anywhere between 1.25x to 1.75x.

Rajesh Kothari: So, basically, what I'm trying to understand is that you have Rs. 450 crore CAPEX in FY20 and another Rs. 450 crore in FY21, so Rs. 900 crore of CAPEX can basically give you 1.75x which is about Rs. 1,600 crore kind of revenue over a period of at the end third year, second year, first year, and how do you see that?

Rajnish Sarna: Yes, with the mathematics in Excel. And you've taken the higher ends of investments as well as the asset turns. But as I said, in these products, when you start, you will start with lower volumes. But obviously, plant investments are not made keeping 1 or 2 or 3 years in mind, these are long-term investments, and several products are there, so these investments are made 8, 10 years, keeping in mind that kind of future perspective of these products. So, you will start with a lower volume value. And then within 3 to 4 years, you would be reaching a reasonable, optimum level, say, 80%-85% kind of plant capacity utilization. And that's when you kind of reach to this 1.25-1.5x kind of asset turn. You can maybe have a separate discussion and create a metric that how these Rs. 450 crore or Rs. 400 crore, starting with maybe one or less than one, how this will mature in 4 to 5 years or 3 to 4 years.

Rajesh Kothari: Oh, yes, sure. We'll take the question off-line.

Moderator: Thank you. The next question is from the line of Levin Shah from Valuequest.

Levin Shah: As you had mentioned in the last quarter that our capacity utilization then stood at around 90%. So, I'm just trying to understand where did this growth come from, because we were at 90% utilization as on last quarter.

Rajnish Sarna: Yes. Two things. As we have also tried to explain in our release that a lot of efforts have been put in in terms of de-bottlenecking the existing capacities. A lot of efforts have been put in and we have got good results. That has also helped us ramp up the revenues. And secondly, we had also kind of commercialized one new plant at almost the fag end of last year. So, that has also helped us increase the revenues in this quarter.

Mayank Singhal: And I would like to mention that the capacity and turnover are not linear in nature. You could have an asset delivering a lower-value product and whereas the same could be delivering a higher-value product. So, product mix also plays a role. It's not a coefficient of A, B, C.

Levin Shah: Correct. And now, so 2 new plants that we are working on right now, what is the timeline for those?

Rajnish Sarna: One is expected to get commissioned somewhere in the next quarter and another one is expected to get commissioned in the fourth quarter.

Levin Shah: Okay. So, Q3 and Q4 would be when we'll see both the plants?

Rajnish Sarna: Yes. You're right.

Levin Shah: Yes. And, secondly, on this Nominee Gold 'Bispyribac Sodium', the domestic manufacturing that was going to begin this year, so where are we on that?

Rajnish Sarna: Yes. So, we have got the registration and all other regulatory formalities are complete, and we are expecting that to start in next couple of months.

Levin Shah: Thank you**.** In next couple of months. But do we have the capacities ready for that?

Rajnish Sarna: Yes. We have already commissioned that and trial runs have already completed.

Moderator: Thank you. The next question is from the line of Saurabh Jain from HSBC Securities.

Saurabh Jain: Just seeking some clarifications on the plants. So, one plant was commissioned in February, right? After that, 2 more were supposed to commission early next year. But have they been preponed now to Q3 and Q4?

Rajnish Sarna: Yes, you're right. One plant got commissioned in the fourth quarter last financial year, that is February 2019 or something. What we had said that 2 plants will get commissioned in next financial year, which is current financial year, FY19-20. And that's what I informed earlier participant that one plant is getting commissioned in the next quarter and the second plant is getting commissioned in the fourth quarter. So, this is how these 2 plants are getting commissioned. And then we are also working currently on 2 more plants, that is in next financial year, which is FY20-21.

Saurabh Jain: Okay. And what are the timelines for those 2 plants?

Rajnish Sarna: Well, generally it takes anywhere between 14 to 18 months for a new plant from date 0 to the commissioning.

Saurabh Jain: Yes. So, more likely in the second half of FY21?

Rajnish Sarna: Yes.

Saurabh Jain: Okay. And are there any other plants besides these? Because I suppose one more plant was supposed to commission in the Q2 FY20. Is that right?

Subhash Anand: That's what Rajnish said. One plant will come up in Q2 FY20. One plant we're expecting to be commissioned in Q4 this year. And then we are working on 2 more plants, which will be commissioning in FY21.

Saurabh Jain: Okay. Got it. And this Q2 plant, a large part of that would be going towards for the purposes of backward integration or all incremental revenues?

Rajnish Sarna: Yes. So, it's a mix of it. I mean, some backward integration, and this is basically a new technology block. So, this will also help us develop new business.

Saurabh Jain: Yes. So, I just wanted to understand if you're comfortable sharing what would be the share of this plant going towards incremental revenues and how will it shape up?

Rajnish Sarna: That much detail, I think, won't be there also immediately available with us, but we can discuss this on sideline.

Saurabh Jain: Sure. No problem. And just one more question. Again on the margin side, correct me if I'm wrong, on the CSM business, is it fair to say that we make higher gross margins and higher EBITDA margins, vis-à-vis, the domestic portfolio, in general? So, just wondering, in Q2 we had a much higher share of the CSM business, but still, on the gross margins, we are seeing compression. So, I understand that some bit of that is attributable to raw materials. But just wanted your thoughts on that.

Rajnish Sarna: Well, generally, it is all depending on the product mix. But in general, yes. The manufacturing export business or that area has a higher EBITDA margin. But then if you look at it in terms of assets, this business also requires more investment. So, in that sense, one business generates higher EBITDA margin, the other business generates more cash on investments. So, that's how we balance these 2 areas.

Saurabh Jain: Yes, so I just wanted to know, despite higher share of CSM business in this quarter, still the gross margins are lower on a Y-o-Y basis.

Rajnish Sarna: Well, 2 reasons: One is product mix and secondly, we also started a new product. So, it always happens that when we have started a new product, it takes a little time to kind of streamline and establish the right yields and costs and all.

Subhash Anand: So, we do have a higher ramp-up cost because of the new facility which we have started in Q4. That has had an impact on gross margin number in this quarter. And also what Rajnish says, the product mix also has an impact on overall gross margin.

Saurabh Jain: Yes. Okay. I thought the ramp-up cost would more hit your EBITDA?

Subhash Anand: No. It's not EBITDA because yield, you're still working to set up your norms, so you always have a higher using in the beginning.

Saurabh Jain: Okay. Got it. Just one last question. What could be the quarterly run rate for the depreciation and finance costs in broad sense, is it going to further increase from these quarterly numbers?

Subhash Anand: This quarter, finance cost broadly should be around this line. But depreciation will go up as per our capitalization plan.

Saurabh Jain: Okay. So, any sense on that? What kind of run rate we should assume?

Subhash Anand: So, we spoke about this year. We will be spending around Rs. 400 crore CAPEX. We have done almost Rs. 130 crore already. So, rest will come in the next 3 quarters.

Moderator: Thank you. We'll take the next question from the line of Nihal Shah from Edelweiss.

Nihal Shah: So, my first question was on the CSM bit. So, the strong growth that we've seen, just wanted to understand that, has there been a very big contribution from the sale of products that we've launched in the last 1 year, the new launches? Just if you could bifurcate what has been the incremental contribution of those products?

Subhash Anand: In fact, it's not one year which makes difference in our business, especially CSM business. Because first few years actually is a ramp up. So, 1 or 2 years is not the right way of looking at the share of business, how much it came from, 1 year or 2 years. The way we look, at least we look 3 to 5-year kind of a launch and then try to see how they are contributing to business.

Nihal Shah: So, when the earlier participant was asking us about the increase in CSM share, which is I think been the highest in Q1 over the last many quarters. So, where has the product mix change come? Because then if I understand, for the CSM portfolio, you were saying that our product portfolio would have more or less remained the same?

Rajnish Sarna: As I explained earlier, that this quarter, the growth is looking steep because last year same quarter, it was almost flat. And then you would have also seen that quarter 2, 3, 4, the last year, we ramped up revenues from where we say Rs. 400 odd crore to the last quarter was almost Rs. 600 crore, Q4 of last year. So, this year Q1, 59% growth is looking quite steep because of that base factor. But going forward, as we had already ramped up the previous quarter revenues, this may not look steep. And then, where do the revenues come from?, So, again as we explained earlier, both the factors, existing commercialized products there is spurt in volumes and several countries because what happened that even existing products, they keep on getting registered in new markets, which means new markets are coming there. And even in the existing markets, the volumes are growing. And these are all early-stage molecules. These are not mature products. So, this growth trend will always be there even for existing products. So, the major share of the growth in our revenue is coming from there. Besides, we had also introduced 3 or 4 products last year. So, they have also contributed this year in the first quarter revenues and in the last quarter, we also started a new plant. So, all these factors have contributed to this growth. I hope this answers your question.

Nihal Shah: Yes, it does. So, just one last question. How's the performance of Nominee Gold been this season?

Mayank Singhal: Okay. Yes, when we look at Nominee Gold, obviously it's a bit too early to comment, but Nominee, it's going as per expectation. And I think as you know very well from the past, the consumption of Nominee is continuing dependent on how the monsoon and the weather conditions favor. But overall as a brand, Nominee Gold has a dominant position in the marketplace with more than 40 odd brands and continues to do that. And the company keeps to strategically place itself in the right market with the right price to ensure it continues to maintain its share.

Nihal Shah: Right. And has there been any pricing change compared to last season which is worth highlighting?

Mayank Singhal: Normally there is some pricing plus/minus, but this is too early to comment for competitive intelligence on the public forum right now.

Moderator: Thank you. The next question is from the line of Sumant Kumar of Motilal Oswal.

Sumant Kumar: So, the CSM growth guidance, you have given 25%. So for achieving 24% growth guidance on an overall basis, the domestic business would grow by 10%. So, which product is likely to drive the domestic growth?

Rajnish Sarna: When we say that we are expecting to achieve 20% kind of growth, for the overall, for FY20 we are saying. So, in this, there is contribution of obviously, exports. The kind of pace that we are growing. And for domestic, it's not specific to 1 product. There are several products that we have launched in last couple of years. And general improvement in the second half or later part of the Kharif will help us kind of ramp up volumes of these newly launched 5, 6 products in last 2 years that we have launched. That should help us to drive the growth.

Subhash Anand: And some of the products which we were launched this year and planning to launch this year also will help us to overall drive domestic volume increase.

Sumant Kumar: So, we are including the herbicide, wheat herbicide also in the 10% of the growth?

Rajnish Sarna: Yes, that will also contribute, it may not be a significant value. But yes, it will certainly be part of this overall plan.

Sumant Kumar: Okay. Any FOREX gain in this quarter?

Subhash Anand: As we say, in our business, FOREX actually gets passed on. So, net-net, it's not right to look separately at FOREX gain in the overall number.

Sumant Kumar: Okay. So, FOREX gain is in the other expense or in revenue, it is there or not?

Subhash Anand: It's part of that. Something is part of revenue as per the standard because it gets accounted as per the revenue thing. And something goes as a part of other income, other expense. So, it always has a split historically and even in this quarter also.

Sumant Kumar: Okay. So, it's not material?

Subhash Anand: No, it's not.

Sumant Kumar: Okay. And tax guidance for the FY20 and FY21?

Subhash Anand: We are maintaining 23.5% this year, similar to what we had last year.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors.

Amar Mourya: My question is, wanted to understand, are we seeing a significant demand improvement for our kind of products? Because what I can sense here is that the kind of momentum that we are seeing from last 3 to 4 quarters is not only driven by the new product line but also the existing product has seen a significant demand improvement. So, what is leading to this kind of demand improvement? This is my first question.

And secondly, on the CAPEX side the Rs. 450 crore CAPEX which we had announced. I mean this whole CAPEX will be deployed in the Sterling unit or this will be also going for the Rajasthan plant? And then I have 1 more follow-up.

Rajnish Sarna: Yes. So, for your first question, the growth is driven by both existing and new products and why existing products are growing so much. And then I just responded to the earlier participants. All these products, even existing products, all these products are early-stage molecules. So, it's a very natural trend that one product when it is launched, it is launched in a couple of countries. And then gradually it is launched in several other countries' year-on-year. So, in the following year, not only in the country where it's already registered, there it will grow but the growth will also come from the new countries. And that is precisely the reason that some of these existing products that we are doing, which are also the early-stage molecules, they are growing continuously year-on-year. And it is part of plan and anticipated when we get into long-term understand with the global innovators.

Your second question on CAPEX. Yes, the major investment although will be there in our SEZ plant but yes, there are other maintenance CAPEX and there is also some CAPEX for R&D which is happening in Udaipur. So, if it's just complete CAPEX for the company. But yes, the major part of this would be for capacity enhancement in the SEZ.

Amar Mourya : Okay, and since now we are seeing even the existing product line are seeing volume growth. Are we going to do some Brownfield CAPEX in both the plants or because largely this Rs. 450 crore is for the 2 new plants right and this is new product only?

Rajnish Sarna: Yes. So, generally in our common parlance, the new plant in existing site is Brownfield only. As far as meeting requirement of increased volume of existing products and plants, it is basically by debottlenecking existing plants and the capacities and all. So, it is mix of this CAPEX that we we say new plant as well as some balancing equipment and improvisation in the existing plants. So, all this is there in that term. Around Rs. 400 crore when we say.

Amar Mourya : Okay, so what will be the mix, if we can just quantify Rs. 450 crore out of that, how much would be for the balancing and how much would be for the actual new products?

Rajnish Sarna: That break up we may not be having right here. But yes, I mean, this CAPEX includes both type of things.

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

Bharat Shah: One question. Given the strength of our chemistry, given the strength of our client relationship and also given the fact that we are working at the deeper end of the R&D pipeline and the order book that we hold, what kind of, let's say, 3 to 5 years minimum growth we should expect and look forward to in our international business?

Rajnish Sarna: Well, Bharat Bhai, we have maintained that given the current visibility, R&D pipeline, I mean, we are very hopeful of sustaining this 20% plus kind of growth rate.

Bharat Shah: For 3 to 5 years?

Rajnish Sarna: Yes.

Bharat Shah: Okay. And secondly, at what stage we will delight not just customers but India by coming up with breakthrough technology? By original chemistry molecules?

Rajnish Sarna: R&D is never predictable because we would have been sitting somewhere else. R&D is never predictable, Bharat Bhai.

Bharat Shah: That is correct. But when we do enough of it over a period of time, something should become predictable. If that result is not achieved, then I think we would have under achieved.

Mayank Singhal: Yes, but we are basically working a lot on the process technology area. Some are in the nascent stages of development and I see in the next couple of years, we will have a better visibility of where this could play out. So, that's where we are right now.

Moderator: Thank you. And the next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: Just quickly on the CRAMS part of the business or custom synthesis end is part of the business, what's your sense on over the next 3 to 5 years, what proportion of this business could be the non-agri chem part of the business for us? Or over the next or at least in this horizon it still continues to be a predominantly agri chem driven business for us only?

Mayank Singhal: Yes, if you look at it predominately it would be AgChem, one we have aggressive growth rate there while we are focusing on other segments that the development side will continue to be between 3 to 4 years. So, I do believe it will still remain in single digit in the first half, shed some larger numbers in a span of over the next 5 to 7 years.

Nitin Agarwal: Single digit the non-AgChem business despite all the growth, I mean given the fact that the agri chem business keep growing faster and still remain, despite the progression of single digit percentage of the overall chem business?

Mayank Singhal: That's right.

Moderator: Thank you. And the next question is from the line of Andere Puroshtam from Cogito Advisors.

Andere Puroshtam: I have 2 questions. The first question was that the 50 to 100 basis points improvement in margin that you spoke about, could you throw some color on what are the main factors that will drive it?

Rajnish Sarna: Well, the main factor would be the operating leverage. The kind of growth that we are talking and we are able to achieve. We expect that should give us some operating leverage there. While yes, product mix is another aspect, but I'm sure there are other areas where we are investing. So, broadly, if you look at it the only key driver would be the operating leverage.

Andere Puroshtam: The second question is a bit of a follow up question from earlier questions. The general sense I get on the agri chem business globally is that after many years of tepid growth, the outlook has improved somewhat. Is this assessment correct? Or is this only true of the kind of molecules that you are operating in because you are in the more innovative end of the spectrum? Can you throw some color as to what is actually happening in the agri chem business recently and the outlook in the near future globally?

Rajnish Sarna: Yes. So, 2-3 things. One, if we are talking about the global perspective, overall compared to previous 3, 4 years, yes, there is some kind of improvement and majorly because a few markets had reasonably done well like Latin America and all last year. And inventory levels have come down. So, this is the positive side. Not so positive side is that even this year and last season in many countries was not that great, including North America, Europe and Australia and all. And therefore, the results that we see today of these global companies, again a very mixed kind of scenario that some companies have done, not so great but few companies have done very well, I mean more than double-digit kind of growth, So, this is the global scenario and I mean, overall, as we hear from these global companies, they are relatively positive. What I mean, when I say relative, means what their outlook was, maybe 2 years back, 1.5 years back and what their outlook is today. There is a positive trend, a positive improvement.

As for us, PI is concerned as I explained earlier, I mean it is entirely because of the product portfolio and the quality of product portfolio that we have, that these are all early-stage molecules and they are not getting affected by these vagaries and changes because these products are getting registered in new countries every year. There is a natural growth trend growing gradually.

Moderator: Thank you. The next question is from the line of Rishabh Bothra from Sharekhan.

Rishabh Bothra: I just wanted to understand of the total products in R&D pipeline, how many of them would be under the new business category which we are exploring? Let's say electronic chemicals or imaging chemicals, pharmaceuticals? And if you can also provide CAPEX guidance for FY21. As you mentioned, 2 new plants will be coming up there.

Rajnish Sarna: Yes, close to I would say 10% of our pipeline projects are non-AgChem at this point and they growing. And since the overall number is also increasing, so there's close to 10% is a good number. So, this is one. Second question, can you please repeat your second question?

Rishabh Bothra: You mentioned that 2 new plants will be coming up in FY21 later half. So, what will be the CAPEX guidance for that? You mentioned Rs. 400 crore to Rs. 450 crore for FY20.

Rajnish Sarna: Yes, I mean, we are at this point we are estimating the same, almost close to Rs. 400 crore to Rs. 450 crore is what we are estimating for FY21 as well.

Moderator: Thank you. The next question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Even though direct exports we sell mostly in Asia, among other geographies, what will be the share of indirect exports? Can you just give some color on that?

Rajnish Sarna: No, we are not clear what exactly you mean by direct exports and indirect exports.

Prashant Biyani: By direct export I mean, we are directly exporting to clients globally. And indirect export would mean, our clients in turn selling it to other geographies. And if someone is selling from Asia to NAFTA or Europe, something like that.

Rajnish Sarna: No. We have direct relationship with all these global companies. So, all our exports are mostly direct. There's hardly anything that's indirect. In fact there won't be any indirect exports or something.

Prashant Biyani: No, I mean, but say we are selling anything for example, Japan, the finished product manufactured from those are consumed only in Japan? Or we might have been exporting to other countries

Rajnish Sarna: No. So, yes, now I understand what you mean. So, yes, most of these products, so for example, we supply to these global companies, companies, multinational companies in say, for example, in Japan, and these global companies are selling those products globally, not only in Japan.

Prashant Biyani: So, that really, any color which you would have on indirect export?

Rajnish Sarna: Well, that information may not be there.

Subhash Anand: We don't have visibility on that.

Rajnish Sarna: We won't have exact visibility that if we sell to x in Japan, how much of that x volume goes to which region? That we do not have.

Prashant Biyani: And much of incremental growth going forward or even the existing growth, are coming from the existing clients or the new clients? Something on that?

Rajnish Sarna: Well, significant part is coming from existing clients and we are going deeper with existing clients with the newer projects. But at the same time, as I said earlier, that the R&D pipeline is also growing. And therefore, a lot of new clients are also getting added. New customers are also getting added.

Prashant Biyani: But can you give some client addition count, what could be this year until now and what was last year in FY19?

Rajnish Sarna: We won't have this number readily. But yes, I mean, off the end, I can say that we would have added at least 4, 5 clients this year.

Moderator: Thank you. That was the last question. We would now like to hand the conference back to the management team for closing comments.

Management: Thanks, everybody, for coming on the call today. I appreciate and look forward to meeting you all in the next quarter. Thanks again.

Moderator: Thank you very much. On behalf of PI Industries Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.
