PI Industries Limited

Q1 FY25 Earnings Conference Call Transcript
August 08, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 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 call, please signal the operator by pressing "*" then "0" on your touchtone phone.

I now hand over the conference to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on PI Industries' Q1 FY25 Earnings Conference Call.

Today, we are joined by senior members of the Management Team, including:

- Mr. Mayank Singhal – Vice Chairman and Managing Director
- Mr. Rajnish Sarna – Joint Managing Director
- Mr. Manikantan Viswanathan – Chief Financial Officer
- Mr. Prashant Hegde – CEO, Agchem Brands, and
- Mr. Atul Gupta, CEO, Agchem Exports

We will begin the call with key perspectives from Mr. Singhal. After that, we will have Mr. Viswanathan sharing his views on the Company's financial performance. Thereafter, the forum will be open for a question-and-answer session.

Before we begin, I would like to underline that certain statements made on today's conference call may be forward-looking in nature. A disclaimer to this effect has been included in the investor presentation shared with you earlier and also available on the Stock Exchange websites.

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 and welcome to our call to discuss PI's 1st Quarter 2025 performance.

Let me share my perspectives and the broad progress the Company is making:

As you already know, the global agri input industry is passing through a challenging time due to extreme weather events, inventory destocking, commodity prices, and more. The overall trend and sentiment have stayed moderate. While there is a very initial sign of improvement, it is expected to take some time for it to be business as usual.

On the domestic front, the monsoon showers were delayed in key cropping regions, translating into farmers initially taking guarded approach to sowing.

Against these odds, we maintained a strong growth trend during the Q1, building on a high base from the previous year. Overall, the revenue during Q4 increased by 8%, mainly driven by agchem exports. Agchem export revenue increased by 14% led by volumes and 24% growth in new products, where we are seeing continued strong traction.

Domestic performance was moderate due to delayed sowing, erratic spread of monsoons in the initial phase. However, improvements in our product mix and working capital management contained the financial impact.

Within domestic, our biologicals revenue has grown strongly by 39% year-on-year. The profitability margins have improved mainly on account of favorable product mix, and a high share of biologicals and operating leverage. As the monsoon has progressed well, in the last three to four weeks, the sowing momentum has caught on and is expected to achieve a healthy recovery in Kharif.

The long-term runway for the agrochemical demand in India is good with sustained Government support, advanced mechanization and technology used on the fields. Our product footprint in biologicals is rising year-on-year. Within horticulture too, Jivagro has been delivering a good performance.

PI has consistently created its own track record in growth, backed by it’s unique strategy, relationships with global innovators and best-in-class business processes. As the industry turns the corner, PI will stay ahead with a clear growth visibility on an expanded base. We have a growing R&D pipeline of early stage molecules in CSM that are progressing well and are getting commercialized.

For the current fiscal, we have already commercialized two new molecules in Q1 and are looking to commercialize another 6 to 7 molecules for the sustained growth trend.

Our IPR-aligned service model for innovators allows us to go deeper in our engagement with partners for more collaboration opportunities. Out of the new inquiries, at least 50% of them come from the non-Agchem segment, which is also helping us diversify into adjacencies.

Now, on the domestic front, we see a steady stream of new introductions providing the farmers with the best and most advanced solutions in crop protection. We have launched two innovative brands in Q1. PRESSEDO, a patented broad-spectrum novel insecticide, OSHEEN ULTRA, superior quality stable formulation for sucking pests. Our product pipeline for domestic launches comprises more than 20 products and marks a healthy visibility of growth in the coming year.

Our acquisition of Plant Health Care (PHC) will provide the next set of cutting-edge peptide technology platforms allowing us to introduce new biological products globally. We are on track with obtaining the requisite court mandated approvals and hope to complete this process in the current quarter.

Now, coming to pharma, we are making strategic progress towards creating an integrated CRDMO that aligns with global innovators. Initiatives in terms of infrastructure augmentation and business developments are underway. The momentum will scale up gradually over the next couple of years, contributing well to the overall picture. We are still in the initial stages as during this quarter, the high inventory levels with innovators resulted in muted business performance.

In a positive development, we started operations at the Hyderabad Research facility, while the GMP Kilolab in Lodi is nearing completion, we are moving on to the certification. All these facilities will significantly enhance our offerings.

We have further strengthened our Board with induction of a global Agchem industry veteran, Mr. Rafael Del Rio, who had an illustrious long career. His experience is perfectly aligned to our long-term strategic goals and vision of expanding our global footprint.

While the global industry landscape remains challenging, we maintain our growth outlook for the year, aggressively pursuing available opportunities to sustain momentum. We shall, however, closely monitor the emerging business scenarios and review our growth guidance after Q2FY25.

With this, I conclude my remarks, and I invite our CFO – Mr. Manikantan to continue the discussion. And thank you once again for taking time and being a part of this journey with us. Best regards. Over to you, Manikantan.

Manikantan V.: Thank you, Mr. Singhal. Good afternoon, everyone on the call today. I will summarize the Company's financial highlights for Q1 ended 30 June 2024. Please note that all comparisons are on a year-on-year basis and refer to consolidated financial performance.

As Mr. Singhal had shared, our performance demonstrated a differentiated approach to doing business and a sharp focus on keeping operating parameters in line with our objective. During Q1, FY25, we reported a revenue of Rs. 20,689 million, an 8% growth over the same period last year. This was driven by a 12% growth in exports revenue to Rs. 17,494 million and an 8% decline in domestic revenue to Rs. 3,195 million.

The gross margins and EBITDA improved mainly due to favorable product mix and operating leverage. Profits after tax increased by 17% to 4,488 million.

Our balance sheet and cash flows performed robustly in line with our clear financial strategy and discipline execution, thereby enabling a superlative performance.

Cash flow from operating activities increased 103% to Rs. 6,145 million. This was due to higher operating profit and efficient working capital management. The trade working capital in terms of Days of Sales reduced to 55 days versus 83 days as on 30 June 2023. Inventory levels also reduced in terms of Days of Sales from 73 days as on 30 June 2023 to approximately 50 days.

The surplus cash net of debt is Rs. 44,655 million. Our balance sheet has further strengthened during the year with Net worth increasing to Rs. 91,855 million with a debt equity ratio of 0.01.

The effective tax rate for Q1 FY25 is 20.7% compared to 14.0% in the previous year. The ETR for FY25 is expected to be around 22% to 23% due to the tax exemption of our second SEZ at Jambusar moving from 100% to 50%.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Sir, a couple of questions from my side. First one on the margins, which have been very strong this quarter again at about 28 odd percent and that's despite ~ Rs. 70 crore PBT loss in the pharma segment. So, given this, and the fact that we have been maintaining an EBITDA margin guidance of 26% for this year, should we expect that this current quarter's margin sustains for the rest of the year? And would you like to upgrade your guidance for the full year?

Rajnish Sarna: Thank you, Abhijit. These margins are linked to the product mix and as we have always explained that the product mix changes from quarter-to-quarter depending on the supply schedules and also our domestic season. So, we maintain our guidance that we expect to achieve a 50% to 51% gross margin, 25% to 26% EBITDA margin and these variations quarter-on-quarter will keep on happening depending on the product mix. But we maintained our earlier guidance of maintaining a 25% to 26% margin.

Abhijit Akella: The second one was just with regard to the pharma segment. I understand there is some deferment of revenues there, but if you could please help us understand whether this is coming primarily from the Archimica business in Italy, the API business or is it the CDMO shipments from Therachem in India? And given this kind of start to the year, a week start, what kind of revenue number could we work with for the full year for pharma?

Rajnish Sarna: Well, now we call all this as PI Health Sciences. So, I would rather say that it is mix of both, the product supply to the innovators and also one of the products which is being supplied from Italy. This is primarily because there is a good amount of inventory with the customers, and they are going a little slow in terms of procurement.

In terms of the subsequent quarter or the year, we are still reviewing with our customers. It will take a little more time for us to get absolute clarity that what is going to be the revised schedule of supply of these major products. So, maybe by next quarter, we will have better clarity.

Abhijit Akella: Just one last quick thing from my side, just in the CSM business, what would the contribution from new products have been in this quarter as percentage of revenues? I know it has grown well, but if you could give us the percentage contribution.

Rajnish Sarna: It is more than 20%.

Moderator: The next question is from Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question on the CSM side, we are increasing our expected products launch to around 8 to 10 versus typical of 5 to 6 products for us. Will this be a mix of Agchem, pharma and how about the other segments, electronic chemicals, etc., that we were looking to expand in?

Rajnish Sarna: Yes, this is a mix of both Agchem, electronic chemicals and other specialty chemicals.

Ankur Periwal: It will include pharma as well.

Rajnish Sarna: Pharma product will be included in the pharma business and not in CSM exports.

Ankur Periwal: On the gross margin expansion front, you did allude towards a favorable revenue mix here and given that the new product had shown a good 24% to 25% odd growth, fair to say that these new products are all margin accretive to us and which are the ones who will be driving growth?

Rajnish Sarna: Yes, on a blended basis, the margin expansion is driven not only from CSM products, particularly new products, but also from product mix at our domestic market, including biologicals. So, there is a favorable product mix on both export and domestic sides, which is contributing in margin expansion.

Ankur Periwal: And sir, last question. On the pharma side, your commentary suggested deferment in terms of revenue and hence a lower number here. Our overall guidance here was around 25 odd percent growth in revenues for this financial year with gradual improvement in EBITDA margins. Any changes or any clarity you can provide there given where we are now in terms of our discussion with the clients?

Rajnish Sarna: As I said to the earlier participant, we are currently reviewing the inventory and order book position for some of the key products, and we will be in a better position in coming quarters to comment on that.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Just one question on CAPEX. In the presentation, you mentioned the capacity expansion is in line with the plan. Just wanted to get a sense of what is the CAPEX expectations for this year and given that you have seen such a good ramp up in some of these new products which have obviously been growing well, is there a plan to augment some of these new products with any kind of dedicated capacities? Any color on that would be super helpful.

Rajnish Sarna: We have a plan of close to Rs. 800 crore – Rs. 900 crore CAPEX this year and we are moving in that direction. Apart from fresh CAPEX and building new capacities, we are also, as we have alluded to in the past, optimizing plant capacities and improving throughput by adopting various technologies and that also gives us good room to maximize the capacity utilization because so many new products are now getting commercialized.

While in the initial phases, there will be relatively lower volumes of the new products, but our capacity optimization helps us commercialize many number of new products in the existing plants without very heavily investing on the ground and that is a great achievement of the team over the last couple of years which is also helping us inprove capital efficiency. For current year we have Rs. 800 – Rs. 900 crore of CAPEX plan as of now, and we will keep reviewing it as we progress.

Vivek Rajamani: And just one small clarification. You mentioned that you have obviously been optimizing your capacities and you have obviously benefited from that. Just wondering if you still have more significant levers to that extent where you can continue optimizing for the foreseeable future or do you think you are kind of getting to a point of demand and how these products are getting accepted. You may have to start considering some of these products. Just wanted to get a sense of where we are in that evolution.

Rajnish Sarna: Atul, maybe you can add something to this.

Atul Gupta: As we said that there are new products in the product mix portfolio, so there is always room for improvement through the operational excellence initiatives to improve the capacities by different levers. So, that's how we keep on continually working on optimizing the capacities on the new products as well as the existing products by various initiatives. And that's how that's an ongoing process. This year also we have similar kinds of plans by which we intend to improvise our capacity utilization of the plants.

Moderator: The next question is from Rohan Gupta from Nuvama Institutional Equities. Please go ahead.

Rohan Gupta: Question is on our pharma part of the business; you mentioned that there is a high inventories with the customer. Can you just explain it a little bit because we understood so far that the higher inventories were the only problem in the agro chemicals. So, just in pharma, please, if you can explain how long it may continue to impact our revenues?

Rajnish Sarna: No, I don't think the high inventory we are talking about is only a challenge with Agchem industry. We hear this as a challenge even in pharma. In our case, this is a long-term customer and one of the products is a new drug for that they have already build good inventory and now they are positioning the product. They are now going a little slow forf further procurement till the time they kind of come to a reasonable level of inventory.

Rohan Gupta: It was only related to one product with one customer.

Rajnish Sarna: Yes, it's not one product but two products related to two different customers.

Rohan Gupta: Sir, in pharma piece of the business, you have been looking at and you have been guiding for over next 2-3 years that this part of the business can be Rs. 1,500 – Rs. 2,000 crore with the margins in line with the Company's margin. That's the kind of guidance you shared at the time of acquisition, and we are almost already 1.5 years over now. Just wanted to understand how you see that this pharma piece of the business in your initial guidance and how it is progressing so far now given the current weakness included?

Rajnish Sarna: We still maintain robust outlook on pharma. As we have always said that it is going to be taking little time for integrating, building this differentiated model of completely integrated CRDMO which is what we are doing. There are a lot of successes in terms of improving the R&D setup, infrastructure, modernizing plants, getting in new pipeline of customers and enquiries etc. So, all that is going as per plan. This quarter slowdown is temporary. But in terms of mid-to-long-term outlook, objective, visibility, everything remains in line with our initial expectations.

Rohan Gupta: Sir, second question is on our CAPEX. You mentioned it is still roughly Rs. 800 crore to Rs. 900 crore while we are sitting on almost Rs. 4,000 crore kind of cash and if you see that there is not enough opportunity because we have been looking at for last 3 - 4 years, do you see that the possibility of returning this cash to the investors in terms of either buyback or any other thing?

Rajnish Sarna: There is no dearth of growth opportunities in the area of operations that we are in and the long-term strategic objectives that we have. We are actively evaluating many inorganic opportunities. We have also acted on some of these opportunities in the last 2 years. But yes, at an appropriate time, the board will obviously take a view on both the cash situation and also the growth opportunities that would be in front of us and we will act accordingly.

Rohan Gupta: Last bit from my side and I will come back in queue. Sir, despite a very solid gross margin expansion of roughly 500 bps to 52% in the current quarter, you are still maintaining roughly 50% kind of gross margin guidance only. And so, you are just being cautious, or you see that there can be this quarter some kind of anomaly and higher margin because of this better product mix and will normalize in the rest of the quarters or you are just being cautious in sharing the outlook?

Rajnish Sarna: No, we maintain the same position as I explained to the earlier participant that these margins, gross and EBITDA are all linked to the product mix and product mix keeps changing QoQ. So, our guidance is that we will maintain around 50%-51% gross margin and accordingly the EBITDA margin.

Moderator: The next question is from Ajit Motwani from Dymon Asia Capital. Please go ahead.

Ajit Motwani: On the overall revenue guidance for FY25, we have been given guidance of 15%-20%. Our Q1 numbers are at about 8%. Would you be able to throw some light on the sense that it is under review, or you are still confident of delivering on those growth numbers?

Rajnish Sarna: Well, a lot will depend on how the domestic season pans out. As we have explained in our presentation also that in Q1 due to delayed monsoon and scattered rainfall, the sowing got delayed and accordingly, the season also got delayed. But now things are progressing well. But yes, we will have to keep a watch that how this whole Kharif season pans out in the next couple of months and that will also help us build better visibility that where we will land in terms of our overall revenue growth in coming quarters. Prashant, you may want to add something.

Prashant Hegde: Overall, 2nd Quarter is looking positive. 1st Quarter you already highlighted. Our focus was basically in terms of placement. But we also made some strategic adjustments. Because we reduced strategically our dependency on some of the old generic products and we launched two products in the 1st Quarter and a couple of products planned for the 2nd Quarter. Our focus will be on scaling up these products as well. So, all these should have a positive momentum in Quarter 2.

Ajit Motwani: On the CSM business, I think this quarter was 13%. That business, since you have some visibility because of the order book, on that business, do you see delivering on those heightened numbers?

Rajnish Sarna: Yes, CSM certainly has better visibility because there we have the order book position and supply schedules.

Ajit Motwani: And one last question on the pharma business. From the time we acquired, the revenues have come off very sharply. I know you alluded issues in two products, but apart from that, the discussion or the deferral of the client, can you just elaborate to us, is it beyond products? Is it discussions on plant restructuring, process restructuring, people recruitment or some sort of insight into the way the business is shaping up because Rs. 25 crore revenue per quarter looks pretty low?

Rajnish Sarna: Yes, as far as revenue point is concerned, that has already been explained. But as I said earlier, that on many other fronts, whether it is integration, whether it is upgrading the manufacturing setup, building additional kilolab setup in Italy, commissioning our R&D, pharma R&D setup in Hyderabad, inducting leadership teams in research development, manufacturing, business development areas across these geographies, etc, there have been lot of initiatives and successes across.

Let's not look at one quarter revenue as the benchmark of progress. There are so many things that have been done and we are progressing very well in terms of our overall long-term plan. And we shall certainly be reviewing the situation in the coming quarter.

Ajit Motwani: I think you had alluded to that you need to build a pharma team as well. So, today, let us say, changing some plant integrations you are doing. So, the development of the team or let us say increasing headcount for the pharma piece of the business, that will follow once the integration is done or that is already in place?

Rajnish Sarna: No, this is already done. This is what I was alluding to that process research, business development, etc. all that is already in place.

Moderator: The next question is from Ramesh Sankaranarayanan from Nirmal Bang Equities. Please go ahead.

Ramesh S: Is it possible to share the breakup of the order book of $1.75 billion between Agrochem and non-Agrochem? And similarly, in the share of new products, would it be possible to share the breakup between Agrochem and new products and non-Agrochem segments?

Rajnish Sarna: Well, order book is mostly Agchem only. Non-Agchem products are at the initial stages and there are purchase orders for the year or two and those are not significant part of order book position. The other question of yours, breakdown new products, I think more than 40% of the new products that we are commercializing are all non-Agchem. Even at R&D scale, if we look at our R&D pipeline, more than 40%-45% of products are non-Agchem.

Ramesh S: Second thing is, on the domestic business, despite the strong growth in biological, there is a decline. I understand there is a seasonal impact on the other portfolio. And if you see the balance sheet details given in your annual report for Jivagro, while the gross margins have improved, the revenue has gone down, and it is possible to earn less than 10% of the net margin in ROE. So, like Jivagro, do you see any measures you are taking which will help you improve performance over the next 1-2 years? And similarly, in terms of the new product launches for the domestic business, what is the kind of pipeline you have for the year in domestic formulation, excluding Jivagro and how many new products you are planning in Jivagro?

Rajnish Sarna: My friend, you have so many questions in this one question, but let me try to answer them one by one. About our domestic business growth, yes, it was a little subdued, but let me also clarify that if we look at our domestic brand sales, it was down by 1%-1.5% compared to last year. The other impact is coming due to local supplies of a few export products during previous year. In terms of introduction of products, maybe Prashant, I will request you to enlighten how many new products we are introducing this year, how many we are introducing in the Jivagro also.

Prashant Hegde: We have launched two products in Q1, and we are launching another 5 products for the rest of the year that are spread across both Agrochemical side as well as Biological side. Even in Jivagro as well, first quarter, we did not launch any new product, but the rest of the year we have 6 products, including 3 in Q2 and then 3 in H2. So, this is what we have planned for Jivagro. Your question on Jivagro growth, we have registered growth even in Q1, and on a full year basis, again, the momentum is good, and we are expecting good growth for the rest of the year.

Moderator: We take the next question from Tarang Agrawal from Old Bridge Asset management. Please go ahead.

Tarang Agrawal: Three questions all on PI Health Sciences. One, of the 700 R&D staff or 700 scientists that you have in your roles, how much would be dedicated to PI Health Sciences and how many to PI Industries?

Second, in the current nature of the PI Health Science business, is it more indexed to generic APIs or generic intermediates, if you could just give us a pulse of what the current structure of the business is and how do you intend to transform this business over the next 2 years or 3 years as you achieve the $200-$250 million run rate?

And number three, what are the internal milestones that you have, if you could just give us some sense qualitatively to calibrate the traction in this business and considering that it has been about 14-15 months, how have you progressed in terms of reaching those milestones that you had set out initially and what are the milestones going forward? So, three questions from me?

Rajnish Sarna: Coming to your first question, most of 700 research scientist you mentioned are all for our Agchem areas. For Pharma, we have around 100-110 scientists at Hyderabad and Jaipur specifically working in the Pharma space. Your second question about the business model, I would say it is a mix of both. We have a lot of projects with Pharma innovators. Similar kind of a business model that we have in Agchem which is CDMO or CRDMO kind of a structure, but as a legacy, we also have certain generics that we are doing in our API setup in Italy, that is continuing. The long-term objective is that we will aggressively grow CRDMO model and leveraging our integrated service facilities both in research and development and raising traction for CMO by leveraging our US FDA approved API setup in Italy.

Coming to your third question about internal milestones, I guess I have already answered to the earlier participants that establishing our research setup in Hyderabad, modernizing our research setup and development setup in Jaipur, setting up kilolab in Italy, upgrading systems and processes to a global level, strengthening our teams across process research, development, business development, manufacturing, supply chain, etc are many such milestones that we had set and almost all of them have been achieved during this year. As we informed earlier, we already commissioned the Hyderabad research setup, which is also helping us build a good pipeline of new customers, new enquiries, new businesses at the R&D scale. On the manufacturing side, we have upgraded our facilities and successfully demonstrated to many new customers and exploring potential collaboration with them. So, we are progressing satisfactorily on many fronts.

Tarang Agrawal: Sir, just a follow up, is this business indexed to cater to big pharma or is it indexed to cater to the requirements of EBPs? And second, are you looking at focusing on specific therapeutic areas or specific technology platforms, just to follow up?

Mayank Singhal: Let me tell you that the fact is, you have to build certain capabilities to get into the big pharma. They are clearly looking at strategies with technological levers as the last point that you made. Clearly, these are still evolving, as we are right now building the basic infrastructure, which in any case would cater to the strategy. And as you would appreciate in this business, getting the infrastructure, the resources, the processes, integrate work before you approach customers has its own destination. That is the stage where we are. And once we are able to put these together, obviously, differentiating ourselves with technological capabilities, that is the strategy, broader outline I can give you for now.

Moderator: The next question is from Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: Sir, just first on the PHC acquisition, can you throw some light in terms of how should we look at the revenue shaping up over the next 3-5 years? That is one. Secondly, in terms of manufacturing, as per PHC's annual report, they were outsourcing the products to a European leader. Are we looking to start manufacturing those products in-house now, once the acquisition is completed?

Mayank Singhal: Let me put it this way. Right now, it is too early to make comments on this. I think, strategically, we acquired a technology platform which has potential for growth. And it is showing good signals of growth. And you already mentioned that we are looking at the 20% CAGR over the past year. The idea is that once we have the full grip and the strategies, we will evaluate and get a deeper understanding before we can make any specific answers.

Siddharth Gadekar: Sir, second is on the product that we have launched on our own, any talks we have started with any global innovators to tie up that product or how should we look at the product progressing over the next 3 years?

Mayank Singhal: Yes, we are in dialogue with a few.

Moderator: The next question is from Naushad Chaudhary from Aditya Birla Sun Life. Please go ahead.

Naushad Chaudhary: Two clarifications. Firstly, on the Agri CSM business, we have talked a lot about this division. Just want to understand, given now the size we have reached, do you think the size and base is now a problem for us to keep enjoying the past growth run rate we used to enjoy?

Rajnish Sarna: Not really. This is what we explained that while our size has grown, but over the years we have diversified into adjacencies, into other specialty chemical areas, and that is also driving growth. Apart from the other specialty chemical areas, we have deepened our business model into process innovation as well, which is also giving us additional lever to grow even in the Agchem CSM space.

Naushad Chaudhary: The number of commercialization we have done in the last couple of years, how many of them do you see have a potential to be Rs. 700 - Rs. 800 crore plus revenue for you in the next 3-4 years?

Rajnish Sarna: First of all, I don't think we have done 30-40 products in the last couple of years, 30-40 products we would have done in maybe last 7-8 years. But what I can say is that there are many products which we have commercialized, or those we are currently evaluating/ scaling up at R&D, have this potential of more than 500 million of a global opportunity.

Naushad Chaudhary: Just the last one in the domestic biologicals segment, what kind of opportunity you see in this piece of business in the next 3-4 years? And what kind of edge do we have here versus our competition?

Rajnish Sarna: I think this question is already answered to the previous participant, that it would be too early for us, but what we see here is a cutting edge, unique technology platform in peptides. And this will open huge opportunities for us to keep coming up with new biological products and get access to some of these large global markets. It is going to be a differentiated approach of getting into those markets.

Moderator: The next question is from Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: I just had one question on the CRDMO business, which we are looking to build. If I just understand, looking at the landscape in India, on this, how companies evolve, it probably seems like from your commentary that in the CRDMO business, we are more in the earlier stage of scale up, where we are trying to build out the infra as well as resources. And it is a fairly long gestation business is what I understand, at least. So, would it be fair to say that next 2-3 years, we are just going to look to build out sort of a client engagement and build out the pipeline and then scale up is a bit more beyond that or in the next couple of years itself, we expect very strong scale up in this business, just wanted to understand where we are in the sort of scale up journey for this segment?

Rajnish Sarna: Yes, you are right. If one starts from scratch, the gestation is longer. But the difference here is that we have acquired two businesses along with set of customers and products, portfolio and pipeline etc., which gives us some head start and it would be relatively faster. But in terms of large scale up, it will take little time.

Madhav Marda: And is it also fair to understand that the kind of pipeline we want to build here would be for novel molecules which sort of customers have. So, we would have at some point, a certain number of projects in Phase-1, Phase-2, Phase-3, and then as we kind of move through the development cycle, we will look to scale up as some of them commercialize. Is that how we should think about this business model going ahead?

Rajnish Sarna: Broadly yes.

Madhav Marda: Could you share how many projects do we have in the pipeline today? Like is that something that you could help us understand? Like do we have 20 projects, 30 projects, something around that.

Rajnish Sarna: Yes, we would have maybe close to 12-15 projects in all.

Madhav Marda: Any skew towards Phase-1, Phase-2, Phase-3?

Rajnish Sarna: Well, that data I may not have in front of me.

Moderator: The next question is from Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Firstly, since you have maintained 15% full year revenue guidance and 26% EBITDA margin guidance, that translates to about 12% Y-o-Y EBITDA for the next 9 months, Are you being conservative or is this realistic guidance?

Rajnish Sarna: Well, it is realistic given the current industry scenario.

Krishan Parwani: And secondly, on the tax rate, do you still maintain 24% tax rate guidance or any changes there?

Rajnish Sarna: We just indicated that as per the current estimate, we see close to 22%-23%.

Krishan Parwani: And lastly, if I may, can you please highlight what led to a sequential decline in other expenses?

Manikantan V: In the last quarter we had one-off expenses. That is the reason for that.

Krishan Parwani: How much was that?

Manikantan V: Rs. 25 crore.

Moderator: The next question is from Lokesh Garg from UBS Securities. Please go ahead.

Lokesh Garg: Basically, the growth that has come in, which is let us say 14% that you have reported, originates from two parts. One is legacy molecules; another is sort of new molecules. Last year, FY24 Presentation, you had presented a break-up of that, absolute percentage like of the 19% you had broken up into 14% from new and 5% from let us say older, more than 3 years old. Is something like that possible this quarter also?

Rajnish Sarna: We don't have this data here, but I responded to one earlier participant that close to 20% is coming from these new products.

Lokesh Garg: Yes, that is the revenue share today. I was asking about the growth share, basically, the incremental 14% that you have grown.

Rajnish Sarna: Let’s take this up on the sidelines because we may not have this data right now in front of us.

Lokesh Garg: The other way to look at it is this new product is a rolling number, right? Because you define it at 3 years, so basically, every year, quarter, it is a rolling number. If you were to sort of have that number possible, if you were to do it, let us say at 6 years, what would be that proportion today of the molecules being done?

Rajnish Sarna: No, this data is not in front of us.

Moderator: The next question is from Darshita Shah from Antique Broking. Please go ahead.

Darshita Shah: My first question is regarding the order book, given that we have not mentioned anything in the order book this time, do we assume it to be sustained at around $1.75 billion?

Rajnish Sarna: It is around $1.5-$1.55 billion.

Darshita Shah: The domestic part of the business, how much would be the domestic brand business and how much would be the B2B part of the business if you could give a contribution?

Rajnish Sarna: It is mostly brand. few percentile would be the institutional.

Darshita Shah: Why was I asking is because you mentioned that the domestic brand business saw a decline of barely 1%-1.5% whereas the domestic business actually has seen a decline of about 8%?

Rajnish Sarna: The reason for that is the local delivery of some export products during previous year. Because of delivery destination, such revenue gets clubbed in domestic revenue but that is not brand sales.

Darshita Shah: And what would be the biological contribution be to the overall domestic business for FY24 and Q1 FY25?

Prashant Hegde: Yes, as of now, it is 10%. But biological is growing faster than the Agrochemicals. This may change at the end of the year.

Darshita Shah: And what would this be for FY24?

Prashant Hegde: Biological definitely grew in double digit numbers. And our aim is to at least contribute to around 15% of our total revenue in domestic brands.

Moderator: Next question is from Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead.

S. Mukherjee: Two questions from my side. Of this Agchem CSM business of Rs. 7,500 - Rs. 8,000 crore odd annually, we did somewhere around Rs. 2,000 crore this quarter. How much would be non-AgChem, I understand that out of the new molecules almost 40% is non-Agchem, but on the revenue side, is it meaningful yet?

Rajnish Sarna: Not really, it will be less than 5% as of now, but it has significant potential for scale up and growth.

S. Mukherjee: Sir, any ballpark number, let us say from 5 years from now, how big could be this non-Agchem, non-pharma business?

Rajnish Sarna: It could be easily more than a few hundred million dollars.

S. Mukherjee: And then going ahead, can we expect a separate segment from your side in the reporting? We already have AgChem and Pharma, can we expect this?

Rajnish Sarna: Well, as of now everything is common between agchem and non agchem from R&D scale up, development, manufacturing plants, sales team to other resources. Unless and until we get to a point where we have an independent setup for non-agchem, it would not make sense to report separately. We do not see that independent setup happening soon. But we will surely keep reviewing it.

S. Mukherjee: And in terms of gross margin or EBITDA margin profile, will it be very similar to?

Rajnish Sarna: Broadly, similar.

Moderator: Thank you very much. That was the last question of the day. I would now like to hand the conference back to the management team for closing comments.

Mayank Singhal: Yes, thank you for all your support and we look forward to better quarters going ahead. Thank you.