PI Industries Limited

Q2 & H1 FY19 Earnings Conference Call Transcript

October 29, 2018

Moderator: Ladies and gentlemen, good day and welcome to the PI Industries Limited Q2 & H1 FY19 Earnings Conference Call. As a reminder, all participants' 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you Mr. Solanki.

Nishid Solanki: Thank you. Good morning, everyone and thank you for joining us on PI Industries Q2 & H1 FY19 earnings conference call. Today, we are joined 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 commence with the perspectives from Mr. Mayank 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: Certain statements made or discussed on the conference call today maybe forward-looking in nature and a disclaimer to this effect has been included in the 'Press Release' shared with you earlier.

I would now like to request Mr. Mayank Singhal to share his perspectives with you. Thank you and over to you, Sir.

Mayank Singhal: Thank you and a warm welcome to everyone. I am happy to share that we have delivered another quarter of good performance in line with the plan and guidelines and we are pleased to share our thoughts on the same with you in today's discussion.

We have seen sufficient rainfall in the key cropping areas this season. Consequently, crops like rice, sugarcane, oilseeds are showing higher productivity year-on-year as per advance estimates. The Central Government's new MSP announcement during the quarter provided much awaited respite, to the farmers of pulses and many other crops. Driven by the overall positive sentiments, sales volume finally improved including crop protection. The input cost for the industry has gone up during the last six months driven by INR depreciation, spurt in crude and derivative products, etc., and the companies have selectively considered price increase wherever it is feasible but with the lag effect. With the large niche branded portfolio, PI has seen a healthy take off of its line-up of exclusive products.

Our focus over the last couple of seasons has been to build up strength in key crops in our potent combination of brands that can directly enhance farm yields and productivities. This season saw the introduction of two new brands *'Fantom'* and *'Cosco'* which have received encouraging response from the market. Some of our flagship brands including the ones launched in the past two to three years have also demonstrated healthy traction during the quarter under review.

Further, during this kharif season, we have carried out some unique farm extension initiatives in selective agricultural areas including engagement with the farmer to help them advance farming activity by getting them new technologies. These initiatives are very well received by the farmer, resulting in substantial increase in productivity. We are now working to intensifying these initiatives across various other agricultural areas in next few seasons and make the solution available on a pan India basis.

On the export front, we are clearly seeing an improvement in global demand scenario reflecting in the increasing trends of our export revenues. Shipments now will be improving Q-o-Q as expected, and enquires also translating into firm orders. The trajectory is encouraging and we have commercialized two new products in the quarter. Overall, I believe there is substantial growth potential given the current R&D pipeline. Portfolios have extended early stage molecule, also long-term orders at hand from global innovators. We are overseeing the augmentation of Jambusar capacity with additional two new plants and this also gives us an increased headway for delivering growth.

As you are aware, our work is concentrated on complex chemistry within and around the agrochemicals. Our intent is to go beyond the realm of present and pursue technologies and capabilities in high end chemistry in order to chart a unique high growth path for ourselves. The investments we have made towards augmentation our research capabilities will show results in the next couple of years as we branch out into other verticals in Custom Synthesis.

All in all, we are looking at FY19 with promise of healthy growth across the operations and operating efficiencies in line with our plans.

I will now request Subhash to share his perspectives on the financial performance of Q2 & H1 FY19. Over to you, Subhash.

Subhash Anand: Thank you, Mayank and very good morning to all of you. I am delighted to take you all through the financial highlights of Q2 & H1 FY 19 of this year.

In Q2 FY19, our total revenue stood at Rs.723 crore which is 29% higher YoY basis. Our domestic business grew at 24% due to enhanced growth in portfolio of branded products. Export reported 32% growth during the quarter as a result of increase in demand of existing molecules as well as introduction of new molecules. EBITDA for the quarter stood at Rs.135 crore and accordingly the margin came in at 18.7%. Margin have to be seen in light of, as Mayank pointed out spurt in raw materials prices and lag impact as well as continuation of our strategic investment in R&D. We have reported profit after tax of Rs. 94 crore which is 17% higher compared to previous quarter.

Moving on to the performance of H1 FY19, I am happy to state that on a blended basis, we have reported healthy revenue growth of 19% compared to H1 FY18. EBITDA stood at Rs. 253 crore, translating to margin of 19% and PAT comes at Rs.176 crore.

Coming to our balance sheet position, we continue to report a robust and strong balance sheet. This quarter reported healthy cash flows and our surplus cash stood at Rs. 322 crore. The debt-equity position of the company stood at almost zero, thereby giving wings to our growth initiatives. We continue to look forward to a strong and sustainable business driving further synergies in the coming quarters.

With that, I conclude the highlights and request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Ritesh Gupta from Ambit Capital.

Ritesh Gupta: Good set of numbers. Just wanted to check on the revenue growth guidance which was around 18-20% growth for the full year. You have already done about 19% growth in first half and you have a couple of new plants coming up in second half as well. So, do you see a case where you might upgrade your revenue guidance or you might do better than what 18-20% growth guidance that you have given?

The second one was on the gross margin side. When you see this kind of gross margin pressure, you told us that there was I think some R&D related impact as well on the gross margin side. I would understand R&D impact would be more on the employee cost or on other expenses side, but could you just give us a sense, is there any R&D related component in the gross margins as well? When do you expect this kind of gross margin pressure to normalize in coming quarters?

Rajnish Sarna: The second half is obviously expected to be scaling up and good for the CSM supply, export supply. But at the same time, as you know that the domestic season relatively compared to the first season is soft. So, in that sense, we would still want to maintain our original guideline. We also expect that we should be achieving the higher side of that guideline. So, when we said that it would be 18 to 20%, we expect to touch around 20%, but we would still want to maintain the original guideline. This is answer to your first question.

Coming to your second question, yes, we have seen the gross margin reduction during this first half. So, basically this is on two, three counts – One is that obviously as you know that a significant portion of our first half revenues and business is related to domestic production and supply and there is a lot of imports for that. So, obviously the rupee depreciation will have the impact there. Secondly, with the spurt in crude and derivative prices, many raw material prices have also gone up over last six months, eight months and there is obviously a lag effect. So, yes, we have taken price increases across the products both for domestic products as well as exports but there is some lag impact. But what we are seeing that these corrections have been made, the cost increase pass on that is happening and we are expecting the gross margin situation to certainly improve over next couple of quarters.

Ritesh Gupta: You would say that gross margin pressure was across both domestic as well as for CSM?

Rajnish Sarna: Yes.

Ritesh Gupta: Just on the capacity additions, you have two new plants coming up in Jambusar. I think there was one plant which was more like debottlenecking or kind of, that you have alluded to I think a quarter before or maybe in the Q4. So, is it in addition to that or that is separate? I think you had said that Q3 you will have that debottlenecking coming up and then Q4 is when you see new plants being added. So, if you could just update us and refresh our memories there, what is happening exactly there?

Rajnish Sarna: Yes, basically these two plants, mainly one plant has increased capacity, the second plant is basically backward integration and that sort of effort. So, it may not result in increased revenue to start with but over a period, yes, we will add more products, this will also add to revenue. So, these two plants are on the additional capacity but apart from this also we are investing in debottlenecking during next couple of quarters and that will also help us achieve this (20%+) kind of growth that we are seeing for this year and going forward.

Subhash Anand: In fact the debottlenecking initiative which we spoke last quarter has started showing results, this quarter when you see 32% growth, some of the growth also has come through our debottlenecking initiative.

Ritesh Gupta: Any changes in the order book or any outlook for next year as we get closer to FY20, what is the kind of visibility you are looking there?

Rajnish Sarna: It is around the same level because whatever small increase was there, we also had good invoicing in this quarter, so we have maintained almost the same level. There are a lot of products in pipeline and negotiations are on. So, obviously, the outlook is very good for the coming years and we should certainly be finalizing several long-term contracts in next few quarters.

Moderator: Thank you. We will take the next question from the line of Aditya Jhawar from Investec.

Aditya Jhawar: Congrats on a good set of numbers and it is encouraging to see the topline coming through. It would be great if you can help us understand the constant currency growth for our export business in this quarter?

Subhash Anand: In fact, Aditya, this quarter, the growth basically came through volume increase, not through exchange because exchange overall is broadly same when we compare to last year. So, yes there is a small delta which came from exchange, but overall if you see that growth is mainly by volumes and some by price.

Aditya Jhawar: Can you remind us of our hedging policy?

Subhash Anand: No, as a standard corporate policy, we do hedge our forward exposure, that exposure is hedged depending on what long we are looking like, first year hedge will be slightly high, second year will be small, and third year will be even much smaller. So, we do go ahead and hedge as per our board approved policy and that continues to be as a standard operating process the way we do.

Aditya Jhawar: So, 100% of our export is hedged?

Subhash Anand: Not 100%, we do hedge portion of our export as per our policy and we do hedge less, we are importer and exporter, both, so net-net we are exporter, so definitely we hedge our net exposure and that too not 100%, only partially.

Aditya Jhawar: If you can help us what could be your hedging rate for FY19?

Subhash Anand: Aditya, I am not carrying it along with, maybe I can revert back to you with this detail offline.

Aditya Jhawar: Secondly, on margins, we understand that there is a lag because as the new campaign sets in, we will get a higher price. So, are we having that kind of visibility that Q3 there could be some respite in margins because of the lag effect kicking in?

Subhash Anand: Aditya, we do expect margins to improve in coming quarters that is basically coming from all these initiatives.

Aditya Jhawar: If you can quantify the impact of revenue that got shifted from Q1 into Q2?

Mayank Singhal: If you see the note in the balance sheet, which we have published, actually first quarter we do have some shortfall. When we are looking Q-o-Q impact, if you see H1 impact, I would say the results, there is immaterial impact on the overall numbers, so H1 versus H2 of last year, the carry forward numbers are broadly same, so these numbers are comparable. But this also means whatever Rs. 74 crore of opening impact which we have taken, that has gone in balance sheet and we are not counting it again in our results.

Aditya Jhawar: While the net working capital seems to be pretty much under control, there is a significant increase in receivable days. Could you please help us understand why there is this jump?

Mayank Singhal: Basically, receivables have increased, sales are towards the end of the month and end of the quarter. So, the moment we have high sales towards end of the quarter, receivables will be high. It is a timing issue. It gets liquidated the moment the normal cycle happens. Number of days broadly remain same, it has not changed but yes, it changes because the skewness of sales.

Moderator: Thank you. We will take the next question from the line of Saurabh Jain from HSBC Securities.

Saurabh Jain: Again on the hedge rate thing, do we take a full year hedge at the beginning of the year or do we roll it quarter-over-quarter?

Subhash Anand: As a policy, we actually do not take one point of time entire hedge. We have a three year long-term hedge policy and we keep hedging as per policy. So, every quarter we keep building our hedge book accordingly. In the given percentage range which we have, which board has approved, so we remain with that.

Saurabh Jain: I am just trying to understand that the benefit of this currency depreciation, would this be reflecting over the second half, till now it has not been really as you mentioned in your comments, it has not been accrued to us in the first half, so can we expect better benefits come into second half?

Rajnish Sarna: I think the important point is that the whole business model of export is not at all dependent on currency appreciation and depreciation. So, eventually in the mid to long-term this gets adjusted in the price. So, when we said that the margin or gross margin should improve, that would mainly be driven from the price corrections because of raw material price increases and other things. That effect would be there and the lag effect that was there in first one or two quarters will get settled and therefore we should be seeing a normalized margin situation from next quarter onwards, but that is not account of currency benefit or something because the currency benefit in mid-to-long-term gets adjusted in price. Only advantage that we see of this currency particularly for our export is that it makes your supply from India more competitive vis-à-vis the other countries. So, that is the advantage obviously a manufacturer and supplier get from India.

Saurabh Jain: Just to continue with that, we mentioned that we would be looking to gradually move up the complexity of the products that we develop, right. So, it puts us in an advantageous situation on the pricing side, we would be able to see better say on pricing?

Rajnish Sarna: Obviously, the kind of margins that we currently also command is mainly because of our product profile. As a business principle, we work on early stage molecule, complex chemistry, we are not into generics or commodities. Generics and commodities do not command (20%+) or (21%+) kind of margin profile. So, that margin profile is because of the kind of quality of portfolio.

Saurabh Jain: We also mentioned that we gained market share in the domestic business. So, what would be your current market share and what segments we are able to gain this market share in?

Rajnish Sarna: As you can understand that we work on very selective product portfolio and in the market segment that we participate, we have the leading position ranging from 50% to 75% or so. We are not present across various crop such market segments but the segments that we are participating, we have the leading position in most of our products.

Saurabh Jain: But in the press release you mentioned that we are seeing growth in domestic market share. So, I am just trying to understand.

Mayank Singhal: That is very simple, if we are growing ourselves larger than the industry, you are automatically getting a larger market share.

Saurabh Jain: So, what products we gained market share?

Mayank Singhal: It is not products, it is across segments that we are focused, and all our key brands have performed well overall in all those crop segments.

Saurabh Jain: So, even in the leading brand, you are fast gaining market share I would say?

Mayank Singhal: Yes.

Moderator: Thank you. We will take the next question from the line of Sameer Shah from Value Quest.

Sameer Shah: Can you just give us some color on two things? One, this rainfall has been below normal this year. So, the kind of domestic trends that you are seeing, and the raw material prices impact again, how is the market situation and what do you see?

Mayank Singhal: While we are talking about the rainfall, it is below, but the overall cropping acreages have increased. Also, if you look at reservoir conditions in the south that are much higher level that they have been in the last three years. So, it is expected that the season going forward would definitely be much better than what has been in the past. Obviously, China situation has had negative impact on the raw material prices, cost of products have gone up and also further added by the depreciation in the Indian rupee which has not been so easy to pass on to the markets. On the other hand, while MSPs have been announced, you can see the challenges of the issues in the input space and it is expected that it will be better than last year but there is not going to be a substantial change in this space.

Subhash Anand: Second thing, Sameer, overall rainfall was short, but the timing of rainfall was good this year, so it was very good for I would say for product range which we incorporate or which we play in.

Sameer Shah: These new products we launched in this quarter, right?

Mayank Singhal: Every year as you see we have been launching products and they get accordingly accumulated over the next few years because some of them I would say that you will see major that in the first two, three years, brand building is the long-term extensive exercise. So, as we keep adding two, three years over the years, we will start seeing the trends of these products.

Moderator: Thank you. We will take the next question from the line of Nihal Jham from Edelweiss.

Nihal Jham: Congratulations on a good set of numbers. The first question just as other participant has mentioned was on the margin aspect. You have mentioned that you have taken price rises and there was a bit of timing impact. So, we have seen a number of 21% that you are looking at for your EBITDA margin for FY19. Is that a number you still think we can achieve by taking the price increases and correcting the timing differences in the coming quarter?

Rajnish Sarna: I think more or less we should be achieving that number.

Nihal Jham: Just another question specifically, was there any impact on our CSM revenues from IND AS adjustment like it was in Q1, have there been any sales which got shifted specifically to Q2 or there was a reporting difference?

Subhash Anand: No specific impact. Actual number was immaterial.

Rohan Gupta: Rohan here. Just a follow up question from my side. In a previous question you mentioned that currency depreciation has not had much impact in the CSM business this year on YoY basis. It is slightly surprising to know because currency depreciated by almost 12-15% on YoY and we have in our CSM business a pass on model. So, why the currency impact was not there on revenue, that is something which we are not able to understand?

Subhash Anand: Basically, when we say why currency impact has not come in this year, because this was immediate impact in this quarter and since we slightly hedge in advance, so we do not see the currency impact immediately coming in this quarter, eventually it will come in, but not immediately this quarter.

Rohan Gupta: As far as the pricing is concerned, we reset our pricing every month or every quarter, right?

Rajnish Sarna: Pricing is reset every campaign, not every month.

Rohan Gupta: Generally, a campaign goes for six months to a year?

Rajnish Sarna: Yes, some campaigns are about three months, some are for six months, something like that.

Rohan Gupta: In the meanwhile, when we are continuously procuring the raw material at that time, our margins are affected?

Rajnish Sarna: Yes, there are different types of contracts where there is clear long-term contract, clear pass-through norms established, so whether it is monthly or quarterly at the end of the campaign you kind of reconcile and pass through all these differences but there are also other types of short-term annual orders, there this lag impact will always be there.

Rohan Gupta: So, now when most of the campaign would be reset and the prices which have been increased, it means then in second half or maybe first half of next year at least, 15% sort of revenue growth in CSM business may only come because of currency depreciation, would that understanding be right?

Rajnish Sarna: The contracts which are of long-term nature, there price correction also comes, for example, if the currency was Rs. 65, you had x-price, now currency has become Rs. 75, so the dollar prices will also come down, is it not?

Rohan Gupta: So, that is what I am saying, our revenues are in dollar, right, CSM, so if we continue to get one dollar only, that rate was Rs. 65, now it is Rs. 75, until and unless we reduce the prices, so you think that you will be reducing the prices and if you reduce the prices, our raw material is not going to come down. So, are we going to witness the margin pressure?

Mayank Singhal: No, there are two different issues Rohan, one is the raw material impact pass-through. Second is the currency impact pass-through. Earlier, what we were discussing was the currency impact. Simple thing is raw material has not changed, the simple thing is that if rupee is depreciated, your dollar price will also come down because the denominator has changed. But if the raw material also there is increase, then obviously the price will have that much impact as well, the raw material increase or reduction in price.

Rohan Gupta: So, in general our margins itself will come down because our dollar pricing will remain intact and with the currency depreciation our margins will look like on a lower side now?

Mayank Singhal: In a static product, yes, but then there are new products being launched, there is a scenario where demand is chasing capacity, there are many other factors. In a simple situation what you are saying is probably right, but in percentage terms margin will come down, not maybe in absolute term, but looking to the various other aspects which are currently playing, we expect to maintain them at the earlier levels.

Moderator: Thank you. We will take the next question from the line of Pankaj Tibrewal from Kotak Mutual Fund.

Pankaj Tibrewal: Just apart from the book-keeping questions, it will be very worthwhile if you can talk about what is happening at the end user market which is the agrochem market, they have been in the last couple of years, lot of consolidation which has taken place, can you talk about over the next couple of years how you are seeing the environment changing both from the China as well as the end user market?

The second question is, you have been talking about diversifying your CSM portfolio over a period of time to include pharma at some point of time. Where are we on that journey and how soon we can see that pie also coming into our overall CSM business? So, these two, more from a directional perspective, we would like to understand from you how the market is shaping up?

Mayank Singhal: If you look at the consolidation in the industry, issues are settling down, companies have now aligned themselves to taking to the next phase of their plans for growth and clearly the advantage is one sees out of this are one, that the companies are consolidated, they are focusing on the new product portfolios which are high contributing and larger capabilities of growth.

On the other hand, inventories in the marketplace as mentioned earlier are at a lower level. Strategic directions for growth are looking in a positive way in some of the other economies of the world in the agri space, have shown some good positive outcome in the coming quarters. When we talk about the other areas in terms of CSM, obviously, we are focusing on its core, building block capabilities, some of them have been panned out and a strategic direction to look at and some of these blocks may look into the pharma space, so we do see company's technological and innovation side being the key driver for some of its growth in the next few years.

Pankaj Tibrewal: Where is China playing a role in your agrochem right now when we are speaking to your clients, are they looking at the second option of sourcing which probably in India defacto we become one of the major suppliers or partners, can you throw some light on that, it will be worthwhile there?

Mayank Singhal: When you look at the China situation, obviously, the situation has been challenging and continues to remain challenging from our partners' point of view. Clearly, these is creating a huge opportunity for India for AgChem and fine chemicals and obviously PI being one of the oldest trusted partners and that's the opportunity for us and the companies look on us in a very positive direction. So, that is the reason we see that this China situation over the next couple of years something that is going to settle overnight but clearly at the same time I mentioned that the Chinese do have certain core strengths in some of the basic chemicals which China will continue to have and it is not something that can be very easily said that it will replace India.

Moderator: Thank you. We will take the next question from the line of Chetan Thacker from ASK Investment.

Chetan Thacker: You have been highlighting higher R&D, so just wanted to know H1 this year to H1 last year, what is the absolute number of R&D if you can share that? Second would be on the domestic business side, the margin pressure is purely because of RM or are we seeing change in mix also now that is impacting the margins on the domestic side and how would they evolve over the medium term as new products come in?

Mayank Singhal: When we look at the R&D side of the company, it has definitely gone up more than 20% over last year.

Chetan Thacker: Absolute number compared to H1 if you would have?

Mayank Singhal: Not getting right in front of me, but yes, I can revert back to you.

Chetan Thacker: On the domestic bit of it, over the medium-term, how should we see margins qualitatively evolving there?

Rajnish Sarna: As we explained earlier, the raw material price impacts are getting passed on and price corrections are being taken up for several products. So, all in all the margin profile will only improve in coming quarters. We are also seeing that with this good reservoir situation, the Rabi season should also play out well. If the demand scenario is also good, that will help us to kind of improve and correct this margin situation.

Chetan Thacker: Just on CSM if I have understood correctly, we would be operating largely on a per ton absolute margin number?

Rajnish Sarna: There is no fixed model of business or commercial contracts, there are different models, some are cost plus, some are depending on the technology, enforce and our share of process improvements in that molecule, the pricing is decided accordingly.

Chetan Thacker: So, it would still be a mix but over a medium-term, disregard currency movement because that will have its own lead and lag and pass-through?

Rajnish Sarna: Yes, absolutely.

Moderator: Thank you. We will take the next question from the line of Madhav Marda from Fidelity Investment.

Madhav Marda: This quarter the YoY revenue growth has been a very good number. Just wanted to understand how much of it is coming from volume increase versus priceincrease on YoY basis?

Subhash Anand: This quarter majority of growth has coming from volume side, small portion has come from price side.

Madhav Marda: The second question was one of the major agrochem players globally, they sort of announced the big write-off in their agri portfolio, because they expected the global agrochem environment to be weak. Do you think that could have a bearing on our CSM business revenue profile over the next one or two years?

Rajnish Sarna: Not really, because as we explained earlier we have very good visibility in coming quarters and years, so nothing of this sort reflecting in any kind of portfolio that we are dealing.

Moderator: Thank you. We will take the next question from the line of Amar Mourya from Emkay Global.

Amar Mourya: My first question is primarily for the debottlenecking CAPEX. So, what was the quantum which we did in Q1 of this year for the debottlenecking and what percentage of capacities tentatively had gone up because of this?

Mayank Singhal: Answering that in a different way, the debottlenecking is a constant process and as you know we have multi-product plants and each product has a different capacity and different play at a different point, so that is how they really work, but overall it enhances certain capacity which has been the majority of our growth coming from that kind of, it is linear because it is in our dedicated plants, so you cannot say one product will lead, there are a few products that we have worked on and overall capacity was enhanced.

Amar Mourya: This whole capacity of debottlenecking has been largely done for the CSM side of a business?

Mayank Singhal: Yes.

Amar Mourya: So, let us say in some particular product where you are the #1 or #2 vendor for any particular innovator, is the demand from the innovator side is increasing, that is leading to this kind of debottlenecking?

Rajnish Sarna: There are both these factors; one is that the demand for existing product is increasing and at the same time we are also adding new products, new products are getting commercialized and they are also driving the growth.

Amar Mourya: Any tentative idea like going forward if I see in CSM side of business, let us say the growth would be largely driven by the new products side or the existing products, what is the kind of growth quantum parameters which we should see?

Rajnish Sarna: As we explained earlier, the product profile is of early stage molecules, these are not matured products, so if we are in an early stage molecules, these products for next five, ten years will only be growing as they get registered in different countries, and at the same time every year three, four products are getting commercialized, so they will also kind of contribute to the growth, so both these factors will be there.

Amar Mourya: So, this kind of demand in CSM business is largely, is somewhere the China factor is also adding to the kind of volume which we are seeing?

Rajnish Sarna: Obviously, that also adds because we are not the exclusive supplier of many of these products, there are certainly sometimes two, sometimes three suppliers, so if in one market the customer has some discomfort or if there are uncertainties, the more share goes to the market where they feel comfortable.

Moderator: Thank you. We will take the next question from the line of Abhijit Akella from IIFL.

Abhijit Akella: Just to understand a couple of things; one is in the domestic market, we have seen very strong growth from PI this first half, if I am right, it is 23% which I think much higher than what most of your leading peers have reported so far. Just wanted to understand how much of this is volume driven versus price increases that we have taken to offset the input cost increases?

Subhash Anand: It is primarily volume driven what we see. We do have a small portion coming from price also.

Abhijit Akella: So, would it be fair to say that volume growth also out of this 23% would have been 18- 20% or so?

Mayank Singhal: Yes, majority.

Abhijit Akella: And then in terms of understanding where exactly you manage to gain share – are there specific crops that have worked well for you this season or specific products that have worked well, how should we understand that?

Mayank Singhal: Yes, we basically focus on specific crops and crop solutions and overall portfolio of our products have done well in the market.

Abhijit Akella: Then on the EBITDA margin guidance, if I heard you right, you are maintaining the margin at 21%?

Subhash Anand: That is right.

Abhijit Akella: First half we have done about 19% if I am not mistaken?

Subhash Anand: That is right.

Abhijit Akella: So, will require us to do almost 23%, so do you think that is an achievable expectation?

Subhash Anand: Yes, in fact, a couple of initiatives which are in pipeline including product mix, that is what gives us comfort that we will able to catch up on our margin.

Abhijit Akella: Improvement coming from the CSM side, is it?

Rajnish Sarna: Both.

Abhijit Akella: In terms of the revenue growth, this 20%-odd growth in the domestic side, is that achievable in the second half also would you say?

Mayank Singhal: It is still early to comment as the season is still to progress, erratic monsoon behavior and climatic conditions can play a role in that business as you know.

Abhijit Akella: Press release talks about your investments in next generation technologies and complex chemistries. If it is possible to give us a little more granularity into maybe some of the areas just broadly that you are investing in where you see the opportunity, that would help us understand the strategic direction a little bit better?

Mayank Singhal: Granularity is obviously process technology areas and looking at certain building blocks as mentioned before, and that is where we would be looking at.

Abhijit Akella: This is agrochemical as well as pharma and specialty chemicals, is it?

Mayank Singhal: Yes, in the fine chemicals**,** agro.

Abhijit Akella: In our order book, have these non-agrochem segment started to make a meaningful contribution now?

Rajnish Sarna: Not yet as of now, we expect that in next few years.

Moderator: Thank you. We will take the next question from the line of Manish Bhandari from Vallum Capital.

Manish Bhandari: My question is regarding the role of China in terms of the intermediates what you buy from China. So, what is the total percentage what you are buying from outside especially from China and how the inflation has hit you on that area? Now giving the new scenario which is emerging where the pricing power is shifting back to intermediates, would that require you to do a lot of CAPEX on the backward integration part of it, so if you could explain the strategy going forward?

Rajnish Sarna: As a strategy, as we discussed in the last few quarters, we are gradually reducing the dependence on China in terms of sourcing of these basic raw materials of intermediates. Over last three, four quarters, we have already developed various alternatives in India or outside China in some of the other Asian countries. Currently, maybe close to 17 to, 18% of these raw materials are coming from China. We are constantly working on that front. We are also developing few other alternatives but for some of these basic chemicals, China has got some unique advantages and therefore that much dependence will remain there. In terms of price inflation, yes, whether it is procurement from China or from other countries mainly because of crude and crude derivatives, pricing trend there was spurt in prices over last six to nine months overall in these raw materials, so that has been there and that has also been passed on to the customers, so that is the trend there.

Manish Bhandari: What I can infer from your commentary is that any change in the inflationary scenario of the raw material will be passed on to the customer maybe with some lead and lag irrespective of you change your geographical location or the sourcing of the raw material is it right in terms of to infer?

Rajnish Sarna: Majorly yes.

Manish Bhandari: If you have to invest and do CAPEX to secure these kinds of raw materials, would that mean that your return on equity over a period of time should go on a lower side?

Rajnish Sarna: It does not mean that we will invest in backward integration of all major raw material, that is not the kind of strategy that we have, there are several small to mid-size players in India and outside India who are interested or who have the unique capabilities of working in these chemical areas. So, we basically tie up with them, we give them the long-term visibility and they are very happy to get into long-term understanding with us to supply these intermediates and raw materials as we were getting earlier from the Chinese suppliers. So it is not necessary that we have to invest in backward integration for everything.

Manish Bhandari: Those sources are cheaper than the Chinese maybe some percentage points?

Rajnish Sarna: Maybe not cheaper, but yes, they are not also significantly different from the Chinese price level. Secondly, in any case in China also prices are increasing because of these environment regulations and safety regulations, currency appreciation, even Chinese prices have increased, so it does not make much of difference, some alternative sources are also doing almost at the same price.

Manish Bhandari: My last question is about the renewed demand scenario in the global agrochemicals cycle. Can you specifically give some insight that is our observation right that there is a huge cyclical recovery into the global agrochemicals cycle or is it just some temporary blip what we are seeing, have you been in the industry for long enough, so what is the one or two factors which should give you enough confidence that we are seeing, after 3 to 3.5-years now, we are seeing a huge recovery in the global agrochemicals cycle space and which will help us many other companies in terms of the demand of the products?

Rajnish Sarna: I will not say there is a huge recovery but there is certainly some upturn in the cycle. What we were seeing in last couple of years that there was a de-growth; first there was 8 to 9% de-growth, followed by almost 1% d-growth and something like this, over last three years there was a de-growth in the global industry. Now, what is happening is that because the inventory levels have come down quite sharply over last couple of years, the demands are again coming, if not substantial growth this de-growth will certainly get arrested, maybe with some marginal growth and something and if you have selective products portfolio, early stage molecules, it should certainly benefit because these kinds of products will grow faster or at a higher rate than the old mature products. This is what we are seeing currently in our portfolio that the demands are back, we are again expecting in the next couple of years good growth of these molecules and primarily driven by the global trends as I explained.

Moderator: Thank you. We will take the next question from the line of Manoj Garg from Whiteoak Capital.

Manoj Garg: Congrats on a good set of numbers largely on the topline and hope margins to follow. I think the previous speaker also spoke about that after maybe 2, 2.5-years kind of lull, we have started seeing good recovery in the CSM business. Just taking it fast forward, I am talking about maybe next two to three years, how do you see the growth coming into the segment – are we back to the 20% kind of growth which probably we have seen historically on the CSM side?

Rajnish Sarna: We are seeing (20%+) kind of visibility very much there. Now we will have to see that how we have to debottleneck capacities, build new capacities because there is very good visibility, there is very good portfolio of products that we have. It is a question of now execution and delivery and this is what currently we are focusing on.

Manoj Garg: Second is, I think there are a couple of articles in the newspaper which was indicating that Chinese Government is easing out the blue sky kind of scenarios in terms the way they were stringent over the last two to three years, very strict on the environmental side, they are easing out some of those rules which means probably there will be some capacity coming back in the Chinese market. Just would like to understand have you also heard about these kind of things and will it ease out the pressures on the commodity side?

Rajnish Sarna: Yes, you are right, we have also kind of heard this while interacting with many of these Chinese companies. This is basically a kneejerk reaction to the current economic situation there which is seemingly lower than what is published. So, they are probably easing out some of these restrictions to bring back growth particularly in chemicals, this would certainly then result in availability or reduce uncertainties on availability of some of these raw materials and so the pricing. But still we will need to see this reflecting in the pricing offers and all which is currently not the situation but expected maybe in next few months things should streamline or settle down.

Manoj Garg: While you have guided for a strong margin recovery in the second half of this year, I am talking about margin sustaining at 21% kind of what level, but as we see the CSM business continuously increasing going forward, how do you see margins to stabilize maybe more from medium term kind of perspective?

Rajnish Sarna: We are expecting to sustain these sort of margins, around 21% kind of margin level because while yes, we will be getting operating leverage benefit with the increased revenue or high growth but at the same time we are also continuously investing in technologies and new areas of process technologies, that will balance some bit of it, but we are quite confident and hopeful of sustaining and maintaining these margins levels.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: On the business development front, you talked about in the past that the whole Chinese issues creating some sort of drive for companies to look at alternate sources from India. Have you seen that translating into your own business development efforts?

Rajnish Sarna: Very much, this is clearly reflecting in the current size of R&D pipeline, new enquiries flow, the number of projects at different levels from lab to the pilot.

Nitin Agarwal: Apart from the number of projects that you are beginning to get, is there any difference even in the quality of business that is coming to your way versus what you are getting earlier?

Rajnish Sarna: Quality of business was always good. In our case as we have discussed in past, that we have always focused on early stage molecule, we have always focused on complex chemistry but yes, strategically all these companies who are global companies who are not putting all their eggs in one basket, so they were sharing these complex products or their strategic products with different geographies. Now if one geography is kind of giving them some discomfort or uncertainty was there, they are keen to look at alternatives and this is where the advantage is coming to India and particularly to PI.

Nitin Agarwal: Secondly, with the way the currency has moved, obviously versus Rs. 63, Rs. 64 sort of a level which was there for a couple of years versus assuming if the currency stays around these levels, structurally does it do anything to your business on the CSM side, does it lead to lower margin because of this whole accounting, how does the renegotiation happen with you from a customer perspective, do you end up passing on all the gains of the currency fluctuation to the customers?

Rajnish Sarna: Not really, so two, three points: One, it certainly helps in terms of making you more competitive than other geographies. So, this is a positive side, if for example, if a manufacturer or a supplier is competing with someone in Europe or in China or US, it would certainly help in terms of making that supplier more competitive. As far as the sharing of this benefit and all, it all depends, it varies product-to-product, there is no fixed formula for this because for each molecule, for each product, our contribution, our position in terms of finding and adding value in terms of most viable process, bringing in a lot of value in these processes, that changes the commercial proposition for each product. So, there is no fixed formula here. But as I said that there are many new products getting added, more demand chasing less capacity, this is a very positive and favorable situation and therefore we believe that we should be able to sustain the kind of margins that we have been working on.

Nitin Agarwal: Lastly on that point, so over a medium-term, what is the sustainable sort of margin that you can get in both the segments?

Rajnish Sarna: We expect this anywhere between 20%, 21% which will be the sustainable level.

Nitin Agarwal: Because in the past you have done higher margins, so just curious, in the sense with an increased scale of business wouldn't the margins over a period of time sort of trend higher?

Rajnish Sarna: Yes, you are right but as I said that while yes, we will be getting operating leverage benefit at the same time we are also investing heavily in the newer process technologies for diversification and other things and this will balance out. Our keen interest is to sustain long-term growth and if we have to sustain this long-term growth we will need to keep venturing into these newer verticals, diversifying to newer verticals and which will require some sort of investments.

Moderator: Thank you. We will take the next question from the line of Laxmi Narayan from SBICAP Securities.

Laxmi Narayan: Two questions are as follows: Firstly, in your CSM business, if you could talk about how rising raw materials how much would you be able to pass it on, how are the contracts really awarded, etc., just a little comfort on if the prices are rising, than how much of it could be passed on to the customers? Secondly on the domestic portfolio, the products that you have, we understand that 30% of it is into generics, so is that correct now and for a remaining part of your portfolio, how much of it can you absorb rising raw material prices if you could just give some clarity?

Rajnish Sarna: Your first question, we have kind of answered that, generally these raw materials price increases there would be some lag particularly in short-term contracts, but in long-term contracts and in any case campaign-over-campaign, all these price increases or cost increases are pass-through and they get adjusted in prices, which is what will be reflecting in coming quarters as you will see the improved margin situation.

The second question about the nature of portfolio for domestic, more or less 70:30, 80:20 kind of situation where 80% are exclusive and co-marketing products, but these 20% products are also gradually reducing as some of these products are getting phased out, most of these products would be exclusive or co-marketing over a period of time and there ultimately as we discussed earlier the pass-through or cost pass on particularly in domestic market depends on how the overall competition is working and how the competitors, what kind of strategy that they are working. So, these are the products got segmented, if it is exclusive kind of products, you can have your own view and strategy but if it is a competing scenario, there are a couple of other products, those strategies or strategies of those suppliers will have to be also taken into account and this is what happens. Because of rupee depreciation, because of raw material increase, cost has substantially gone up in the last six to eight months, also reflecting in the results of some of these companies and people have already started passing on these costs in terms of price correction and I am sure that in coming few quarters this would be reflecting in their prices and margins.

Moderator: The next question is from the line Dipan Mehta from Elixir Equities.

Dipan Mehta: I just wanted to know what is the CAPEX plan of the company in the next two years?

Subhash Anand: In fact we are maintaining our CAPEX guideline, this year we will have a CAPEX plan of almost Rs. 300 crore and even for next two years we are looking Rs. 200 crore plus kind of CAPEX.

Rajnish Sarna: Rs. 200 to 250 crore because as we explained earlier the pipeline is looking quite robust, many projects are moving from R&D to commercialization, overall demand scenario is quite encouraging and positive, which would mean that there are many growth opportunities and obviously particularly in exports we will have to build capacity to realize these opportunities.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking.

Manish Mahawar: I wanted to know in the last year 2018 particularly, how the CSM market size in the global Ag Chem market has grown or that has also declined in 2018 and how is our market share last year?

Rajnish Sarna: 2016 there was de-growth by close to 9%, 2017 it was almost flat, I think 0.5% de-growth or something, 2018 which is current year it is expected to grow may be couple of percentage because some of the markets particularly, for example, North America, Brazil have done reasonably okay, so couple of percentage growth in the current year is what we are expecting, although still couple of months are remaining in the current year.

Manish Mahawar: But what could be the size of CSM market now in billion dollars?

Rajnish Sarna: It would not have changed dramatically because the customer market or the customer industry size has not dramatically changed, so the market would have also remained almost at a same level. So, if you are looking at CSM per se across the verticals it would be substantially high; $30 billion to $40 billion, but if you are talking only about the Ag Chem may be $4 billion to $5 billion around that.

Manish Mahawar: Our market share should be in the range of around 5%?

Rajnish Sarna: Yes, around 5%.

Manish Mahawar: Second thing on H1 number on CSM particularly and your growth was around 23% to 24% in H1 for this year. Is it possible if you exclude the new products commercialized in the last may be a year and what is the existing products and in the old products contribution in the growth?

Rajnish Sarna: It is all possible, but certainly not right now, these numbers would not be with us now, but in principle in exports, when a new product gets commercialized, because these are the initial campaigns, so volumes are not going to be quite substantial, although the next couple of years the volumes will gradually go up and third and fourth year they probably get to a decent level. For example, in current year we have commercialized two products and these are not very substantial volumes.

Manish Mahawar: In the last one year, we have commercialized I think four or five products, right?

Rajnish Sarna: Almost four products, yes.

Manish Mahawar: If we exclude that number, maybe it has contributed roughly 4%, 5% of revenue may be like what could be the number roughly ballpark I wanted to understand?

Rajnish Sarna: Frankly, we do not have this right now, may be on the side lines we can provide you this data.

Manish Mahawar: Secondly, just repetitive of the earlier participant question, basically in the domestic business the growth of (20%+) for this year H1 or may be Q2, both the quarters growth was substantially high actually, which are the specific product or crop which did well?

Mayank Singhal: In terms of volume, NOMINEE and OSHEEN have both given us good growth and also the new products that in partnership with the BASF's they have shown us some good trajectory.

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Manish Mahawar: Just the contribution of your in-licensing products in the H1 this year and last year same time actually?

Subhash Anand: I do not have number in front of me, but that is what even in earlier discussion Mr. Sarna pointed out, 70% to 80% comes from our in-licensed or co-marketing product and balance is generic, so the contributions remain in a similar line.

Manish Mahawar: Just wanted to reconfirm with you, the margin guidance what you have given for this year is 21%, right, which could be a very good run rate in the second half, and what you are talking about, this is despite there could be some commercialization cost of new plants will come up right, this is despite that we are talking about?

Rajnish Sarna: Yes.

Manish Mahawar: Guidance for tax rate for this year?

Subhash Anand: We are maintaining around 21%.

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

Sumant Kumar: My question is regarding our domestic business. So, which part of India we have done well compared to previous year and which crop we have strengthened our position?

Mayank Singhal: We have done well in all parts of the country. I think all the crops have done well this year, rice being a key focuses that has done well for us, corn, cotton and certain other also done well.

Subhash Anand: Domestic growth is actually well-rounded growth this year.

Sumant Kumar: When we bifurcate the old product and new product, what would be the contribution growth from the new products?

Mayank Singhal: Growth has been contributed from new products, growth from the older products are more in steady state.

Sumant Kumar: So, can we assume older product growth will be in single digit?

Mayank Singhal: Yes broadly.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Mayank Singhal: Thank you very much everybody for participating on the call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of PI Industries Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.