



PI Industries Limited

Q3 FY21 Earnings Conference Call Transcript

Feb 03, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY21 Earning Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. I 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 afternoon, everyone, and thank you for joining us on PI Industries Q3 & 9M FY21 Earnings Conference Call. Today, we are joined by senior members of the management team, including Mr. Mayank Singhal -- Executive Vice Chairman & Managing Director; Mr. Rajnish Sarna -- Executive Director and Mr. Rajiv Batra -- Chief Financial Officer.

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

Before we begin, I would like to underline that certain statements made on the conference call today may be forward-looking in nature. And a disclaimer to this effect has been included in the "Business Performance Update Presentation" shared with you earlier and also available on 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: Good afternoon. A warm welcome to everyone for joining the call today. I trust all of you are keeping good health in the challenging times. Once again, I am delighted to inform you we have delivered a healthy overall performance during the quarter. Some quick highlights for the quarter: Our revenues have grown by 37% while EBITDA rose by 48%, leading to robust PAT growth of 61%.

As an innovative solution provider, to our global partners, we have continuously strengthened its deep-rooted relationships, which is well reflected in our performance. Even though the world was in the throes of the pandemic, I'm proud to say our teams have tirelessly delivered to meet and exceeded our customer expectations by being extremely agile in this trying time period.



Demand of our commercialized molecules continues to remain healthy. As our partners continue to expand their footprints, they seek our support for their own new molecule bringing an additional opportunity. We have successfully commissioned four molecules. One significant event in the expansion of our offerings is into the specialty chemicals arena where we will be commencing production in the coming quarter. We plan to start production for our new MPP in Q4 in the fiscal year. The upgradation of the production facilities of Isagro should also see completion in the coming couple of months. We are now on track for integration of the Isagro domestic brand with PI with an aim to maximize synergies and the results have shown significant growth for us. Our plans to commercialize five to six molecules in FY22 are currently at various stages of development.

In the domestic business, our sales portfolio of products has come up significantly well. I'm glad to highlight that we have had the highest sales in NOMINEE GOLD and Osheen led by strong demand scenarios in both rice and cotton crop. Our wheat herbicide of 'Awkira' continues to report higher sales, having treated more than 100k acres so far. We have launched "Londax Superpower" which is the rice herbicide and the initial response has been positive.

Our strategic initiatives on fruits and vegetables with our refurbished strong portfolio is continuing to yield results. Our intention remains to launch a couple of new proprietary products over the next year.

The line-up of new and existing products aims at contributing to the topline significantly

Our digital initiatives from customer management and operations to enhance the customer experience, quality products backed by our high-potential offerings, shall be instrumental in cementing leadership position in key segments of our presence. This positions PI in a favorable place to deliver growth across domestic and export operations in line with superior relationships and technological offerings. The newly commissioned sites are ramping up well and it remains our objective to obtain consistently good returns on our asset base. Whereas several supportive factors will drive the macros domestically, including good successive harvesting seasons, our exports will benefit from enhanced scope of supplies from existing molecules and new molecules that would be commercialized over a period of time

We continue to evaluate long-term opportunities to deploy the funds from the QIP and a suitable decision that best considers the capabilities and aspirations of our company will be made and shared shortly. This will dovetail with our pursuit of advanced next-generation technology across in-house setups, allowing us to establish new pathways of growth rapidly. As we relentlessly pursue our vision for growth, we continue to invest in talent development, and augmenting our resources in line with the long-term objectives

Thus, with this, I would now like to hand over to our CFO, Rajiv Batra. He will share with you on the financial developments. And thank you once again, and over to you, Rajiv. Thanks.

Rajiv Batra:

Thank you, Mayank. Good afternoon, and I would like to thank you all for joining us today. The intent is to provide you a brief overview of the financial performance for third quarter ended December, 2020. All comparisons here are with Q3 of FY20 and on a consolidated basis. In Q3 FY21, we've demonstrated a healthy performance

momentum, which Mayank has already referred to where revenues improved by 37% to Rs.1,162 crore, led by 26% enhancement in domestic operations to Rs.260 crore and 40% growth on export operations to Rs.902 crore. Performance was supported by multiple levers, including prudent raw material management, higher utilization rates, better traction from branded portfolios as well as greater contribution from Isagro.

On the earnings front, we were able to enhance our EBITDA by 48% to Rs.276 crore, translating the EBITDA margin of 24%. There was an expansion of 176 basis points on a year-to-year basis. Profits after tax at Rs.195 crore, higher by 61%, in-line with a better top line performance and depreciation in line with our newer capacity which we just refer to.

On the nine months perspective, blended revenues grew 35%, capacity utilization building has almost come back to pre-COVID levels, exports stood 30% higher whereas domestic business aided by Isagro grew 46%. EBITDA margins came into 206 basis points, higher at 23% and PAT showed 61% improvement at Rs.559 crore.

Better operating performance has strengthened our balance sheet position. Inventory levels have increased in line with better demand visibility. Our CAPEX in the first nine months stood at Rs.320 crore and we remain on track to invest more in our capacities to realize our vision and growth objectives.

Current order book position remains very robust at \$ 1.5 billion, with sound growth visibility for the next couple of years. There has been a healthy generation of cash at Rs.301 crore for nine months.

We also declared yesterday interim dividend of Rs.3 per share.

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

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

Ritesh Gupta: Just two from my side; one is that you have seen a very strong CSM growth this quarter, this year as well and probably was similar last year, and the outlook we see is that agro demand is only improving and especially the crop outlook is definitely better. So is there a reason to believe that let's say your historical guidance of 20%, 25% do you think you could exceed that let's say in next two years? That's point number one. And then on the domestic side, the growth that you've seen in this quarter, could you just break it up in terms of what is from the Isagro addition? And how much is from the core domestic business?

Mayank Singhal: On the CSM business, I would stick to the benchmark that we have given for growth. Please do appreciate the base has changed, while the opportunity size is also increasing, no doubt, but looking at the cyclical nature of the business, and looking at what we have in hand, we would still stick to our original guidelines there. And having delivered a better base, it also becomes interesting to see what will happen in the next couple of years. So I'm pretty confident that we can maintain that. When I look at the domestic business, we are in a position that today, if you look at this quarter PI's own portfolio of brands have done very well that we have driven about



Inspired by Science

17% brand growth in the core domestic businesses. And the other growth has been driven by the Isagro piece of the total growth engine, in total numbers that you see for the quarter, which is about 26%.

Ritesh Gupta: And just the last one on the M&A side, where are we right now, what are we thinking, any targets in mind?

Rajnish Sarna: So on M&A side, we are currently very actively evaluating a couple of options. We have not reached to a definitive position as yet. But we are very actively evaluating a couple of options, which were on table and from last one and half quarters we have evaluated few more options and finally decided not to pursue them. But at this point in time, we have a couple of options that we are very actively evaluating.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: My first question is on the new MPP that Mayank, you did highlight in the initial comments, expecting this in Q4, and you also mentioned opportunity arising in the new specialty chemicals side. So if you can just elaborate a bit on that side, which exactly you are referring to?

Mayank Singhal: Yes, MPP is getting commercialized and at the same time, we are getting into specialty fine chemicals. But, as you know, these are multipurpose plants, they're not dedicated to a product or so. And at the same time, the team is working to look at how we can improve the throughput and efficiency and create capacity without really deploying excess capital over the next few years. So the technological capabilities and intervention that were taking place.

Ankur Periwal: Second thing there, in terms of the molecules, which are under synthesis, couple of years, we have seen an uptick on that side. And if I got your comment, right, we have already commercialized four and we are looking to launch five or six incremental or this is in addition, including these four products that we have already commercialized?

Mayank Singhal: In addition to these four products, these five and six will be new products.

Ankur Periwal: So the total will be let's say, five plus four, so nine to ten products in this financial year, will that be right understanding?

Mayank Singhal: We've done four so far. Five to six in the coming financial year.

Ankur Periwal: So my question here was that, if I look historically, maybe over the last let's say three to five years, the run rate in terms of the molecules, which are under synthesis has been on a steady uptick from 20-25 molecules we have reached probably 60, 65 plus now. But the commercialized molecules are broadly sticking in that range of three to four, or maybe five to six molecules now. Is it just a matter of time or how should one read into it?

Mayank Singhal: Number one I would not put that number of 60 to 70. Number two, I think the scale up and the molecules that are going into scale up the numbers are increasing steadily at a pace and we see a good pipeline, which could be probably looking at higher rates of commercialization. Sometimes, you could have higher rates in one year and

less than the other because as you see work in the innovator space, and we also focus on new molecule technologies. So it depends on the regulatory framework and timelines of how the go-to-market approach the customers. But we are pretty well prepared to say that we have about 15, 20 molecules ready to be commercialized in the next year or two.

Rajnish Sarna: Just to add to this, so, over the years, pace of introduction, commercialization of new molecules has certainly increased, 3 to 5 years back, we used to commercialize maybe a couple of products two to three products, but I would say for at least, the last one or two years, we've been able to kind of increase this commercialization pace mainly because the R&D pipeline and flow of new enquiries have increased over the last two, three years. The other change is that the R&D pipeline as well as the products which are getting commercialized, this composition is also comprising of non Agchem products, so more towards other specialty fine chemicals defined technical areas. So, that is also a kind of change that we have seen over the years.

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

Bharat Shah: First one, in terms of our research, chemistry strain technology, new technologies under development, also, now, we are pursuing the pharmaceuticals part more intensely in the people part of the talent pool, if you can give without being specific, but if you can give a glimpse into the kind of preparedness for the future, which is under offering that will give a good insight into the future, talent pool, product pipeline, then new chemistry, maybe new customers and new technology. So all of these if you can give some kind of overview that will be useful?

Mayank Singhal: As you know, technology and these are very highly sensitive matters. And some of them in the potential stages of getting developed and going into commercial phases over the next couple of years. But the lead indicator that you have to pick up is practically we have now covered about 100 odd patents. Some of these will go into play, and some of them will go into play with time and the company continues to invest in two core areas, one is in the application front, the other is a process chemistry capability built out. And obviously, we are looking at different ways of doing this. And when I say when we are able to patent that itself is an answer to say yes, there is something different and unique, which is coming up. And that gives us a great sense of delight to say that in the next few years, we would be an innovation-led organization, as technology scale up in this business has a gestation period and takes its own time. But we are on that path.

Bharat Shah: In terms of people part, if you can throw how we are deepening and enriching our talent pool?

Mayank Singhal: Yes, if you look at the strategic plan we've actually put together whole talent development plan, leadership alliance plan we are working with global consulting firms to look at how we're going to look at organizational restructuring from the point of pursuing our growth opportunities, both human development sides and from a delivery side, we are augmenting human capital into the system, we are adding more capacities of talent in the alignment to our strategic initiatives, a lot of scientific talent pool has been gone in, more scientific talent pool is already on board. Before pursuing pharma, we started working in pharma, we've about 15 dedicated lead scientists in the pharma space. Ph. Ds have gone up. If you look at even the leadership team, there are four Ph. Ds sitting up and driving. So it's a clear indicator



of our intent to look at bringing knowledge as a key driver and lead the business from a technical front. And to do this, we are putting a robust program where we're constantly putting a high performance management system which is already there in the company, but also further putting it in a different framework through systems and tools to make sure that as we grow and scale, given the challenges of the external world that we see in India, attrition rates and leadership demands are different. We have been able to build a stronger system-based approach to developing bringing in belongingness into the system to deliver high growth. And that's been very well reflected on what we've been able to do so far.

Bharat Shah: And my second question is in terms of technology and product in chemistry power , we are at a different stage than in the past. Our ambition to become innovation-led organization, deepening of the talent pool, improvement in the size and scale of the business and hopefully success in pharmaceutical side of the business as well. So in many of these very positive scenarios and actual attainment of robust performance in the last few quarters, what are the things that you worry about, and what do you think can be potential risks or the challenges?

Mayank Singhal: Without risk, there is no opportunity. But the risk in the world is in a very volatile space as we continue to go through this pandemic. Agri has its own cycles and change. Regulatory and policy issues need to be viewed with the different lens and expectation of consistency. And that is another area which I see that kind of risk. The other is internally driven. And we as an organization at the leadership level, are mapping that and making sure that we continue to pre-invest in them to develop, and that can be well answered, if you look at the human capital costs, if you look at even the cost structures in our overheads have grown aggressively. But these are all the investments because we're not looking to just see for today, but we're making investments to develop them for tomorrow. And that will be an area where we continue to invest in the short-term gaining for the long term.

Rajnish Sarna: Just to add to this, Bharat bhai, overall geopolitical scenario, what we were seeing for last two, three, four years and what is now getting changed with the changes of power in US and other geographies also, sometimes have their own implications on the global supply chains and businesses. So, that is another one important aspect that we have to always keep in mind.

Moderator: The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: In our PPT we have mentioned that we are looking at a few of the pharma assets. So, out of the QIP money, have we definitively earmarked some portion for pharma and some portion for non-pharma or is it largely flexible in terms of the opportunity and probably the markets?

Rajnish Sarna: So yes, we have not allocated as such any amount for pharma or non-pharma at this point in time. We are evaluating some of these opportunities. It also includes pharma opportunity. And once we get to a definitive stage, then we will know exactly that how much is the amount that we are allocating to pharma, and then to some of these other technological opportunities that we are pursuing

Rohit Nagraj: The second question is, in the last couple of years, if we look at our export's breakup, North America accounts for almost 50% of the export revenue. Now, earlier to that it was predominantly Asian region excluding India. So has there been any definitive

change in terms of the molecules that we are developing or the opportunities that are coming our way, and whether this particular change is only for a geography or incrementally it will be across maybe Europe, Asia, as well as North America?

Mayank Singhal: So the way I would like to answer that is I think if you see historically, PI enjoyed a strong foothold with the Japanese companies, we were strong in Asia. Now that we are doing geographical expansion, as I mentioned earlier, that the various geographies have been expanded into by innovators across the world. And as these go into larger areas of consumption, where one of the largest markets in the world obviously will have a larger portion. Yet, there are certain other markets where certain footprint expansion is happening by our customers. So geographies would continue to move shift and then get aligned to a global percentage of split of the revenues of AgChem business worldwide.

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

Rohan Gupta: Sir, a couple of questions. First is on our growth expansion plan, where you have initially mentioned that it will be growth both organic as well as inorganic. Sir I understand that though you are still screening opportunities in pharma space, but we haven't heard anything much on the CAPEX plans or the organic growth plans of the company. I think with the next year also 20% growth outlook which we have already shared, we will be short of capacities for our future growth plans. So are we only dependent on inorganic growth opportunities or acquisitions over the next one to two years or we have some definite plans on organic growth also? And if that's so then can you share that any CAPEX commissioning in a near future?

Rajnish Sarna: Okay, so maybe I take this. So yes, there are definitely plans for organic growth as well, as Mayank mentioned, there is a rich R&D pipeline, and we have a very clear visibility of kind of commercializing, 12 to 15 products in next couple of years, some of these products will surely need additional capacities, and we are already in the process of building new capacities, even beyond those which are in progress construction, we have a couple of plants in next year or two to commission and then fit these products. Apart from building new capacity, the other initiative that again we took at least two, three years back is basically on engineering technology side where we are kind of increasing throughput of these capacities or existing capacities or newly created capacity. And this is where we believe we'll be able to kind of dramatically improve the throughput from this plant, and therefore, we'll be able to significantly improve capital efficiency of this manufacturing business going forward. But yes, in short, there are very good opportunities of organic growth, and also there are plans to kind of deliver this growth through additional capacity built up and also technology thereby improving throughput.

Rohan Gupta: And second question is a likely continuation from the same line. In our business where the gestation period is close to 16 months to 20 months, we see that best benefit and best ROCEs and best margins come when we are effectively or optimally utilizing our assets. I see that in the current asset turnover of close to 2.1x and also EBITDA margins of 24.5% out of margins, we are probably milking our assets at its maximum. Is it an indicator and that right now, our ROCEs, our margins are at their best and with the increased CAPEX intensity over the next one to two years, because ultimately, we have to fall in a CAPEX zone, ultimately, we have to get into a building assets zone, and in that timeframe, the bottom line or ROCE would be lower than what we are enjoying right now?



- Rajnish Sarna:** Going forward growth opportunities and visibility is very much there. The CAPEX intensity is going to slow down because of the technology initiatives that we have taken. We already have started realizing some benefits in the current fiscal and we are expecting to realize more benefits going forward in the next couple of years, as we implement some of these technological initiatives in several of our plants and products. So, as a result, the capital efficiency is certainly going to improve from here is what our expectation is.
- Rohan Gupta:** In longer term, we can expect that our asset turn will be above two and historically which has been ranging from 1.5x to 2x, so should we expect that with the technological advancement in the company and in the product mix, we should be aiming higher asset turn of at least 2 to 2.5x sir, will be in that range now, in that zone now?
- Rajnish Sarna:** That's the desire and the plan that we are working on.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Sir, my question is again related to the CAPEX. So, I think you already have one plant coming up in Q4 and another coming up somewhere in Q2 or Q3 of next year. And you mentioned that you have strong visibility on the growth. So apart from Isagro and the improved throughput and the new commissioning, are there any further plans if you are alluding to, but at this point in time you have not disclosed because of the fact that you might have some asset coming in through your acquisition and with acquisitions timing does not suit then probably you announce further fresh CAPEX, is my understanding, correct? That's point number one.
- Rajnish Sarna:** Yes, you are absolutely right. So, there are plans, but number one the intensity of CAPEX will certainly reduce compared to what we have invested in current year as well as last two, three years, but exactly whether it is Rs. 200 crore, Rs. 300 crore is what still in process, business plans are getting finalized, and it will also little more depend on the kind of inorganic options that we finalize on.
- Varshit Shah:** Secondly, I believe you are doing CRAMS, I think we need to keep some leeway for increasing volumes for the customer. So what is the optimal utilization level which are possible beyond which way it is difficult to increase utilization levels, and where are we currently?
- Rajnish Sarna:** We generally consider a little more towards 85% in a multi-product plant scenario, because several changeovers in the plant and product happens as per customer requirements.. But as I mentioned, since we are also working on technological initiatives, so, this is also a rolling ball kind of a scenario where, for example, if a particular plant was utilized for say 85% last year, but because of those technology intervention, for the same volume, we are able to do it maybe with 70% utilization and we are able to get some another 20% - 30% of white space for some other product or something. So this is what is happening on a continuous basis, the kind of improvement that we are talking about.
- Moderator:** Thank you. The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

- Pratik Rangnekar:** We have seen a lot of exporters this quarter and even continuing into post the quarter as well. Talking about a container issue in terms of exports and availability of all of containers and all of that, are we seeing any sort of impact from that as well, or are we okay on that side?
- Mayank Singhal:** No, we are not seeing the impact. Yes, there is a challenge. But again, I think we have a good team as I mentioned, agile, understanding of looking forward to the challenges addressing them and making sure we continue to deliver what we need to. Yes, but there is a challenge of availability in terms of cost and in logistics area.
- Pratik Rangnekar:** So despite that, we've been able to do the 40% kind of growth. It's not that would have been higher had the challenges not there.
- Mayank Singhal:** We are not in the large quantity of container requirements, right. We have high value, small volumes exports. For others with mass scale requirements continuously this has become a challenge.
- Pratik Rangnekar:** Lastly, one on the bookkeeping side. On a Q-o-Q basis versus second quarter and third quarter, we've seen our revenues are largely stable, but there is a sharp increase in other expenses. So is there some one-off there or what do we read into that?
- Rajiv Batra:** I think we have had some expenses, which we incurred on the COVID side mainly for our employees. And there are other some expenses which as we look at our acquisitions, certainly there's a cost to them. And as we get closer to actually making that acquisition, some of them will get capitalized as well. So that's a couple of other things but these are two major ones.
- Pratik Rangnekar:** Will it be possible to quantify how much or what percentage?
- Rajiv Batra:** At this stage, I would not have the details, but more certainly, if you send me a question, I'll come back to you.
- Mayank Singhal:** It is marginal in nature, but yes, this is really where we are.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** My first question on the employee cost like historically we have seen it has been in the range of around 7.5% to 8% of sales, while recently it has moved higher. So over a longer-term basis, given the investments what we have done in the strengthening our team, do we move back to that level or it stays around, how should we look at it?
- Mayank Singhal:** There is a two-pronged answer. One, obviously, there's a higher cost to COVID management. On the other hand, as I mentioned earlier, the company is investing in augmenting and building talent for future opportunities. And if you study PI has always done that. We have invested in growth. So this is the phase where we are planning growth, and we are entering new arenas. And we are pre-investing and we continue to pre-invest in that. So I would say that it's marginal is the other thing that's well done, this becomes not a challenge to handle.

- Dhaval Shah:** Second question is from the presentation where you mentioned, one new line where successful deployment of analytical tools in one MPP and you will be deploying into the others. I think this relates to your commentary on the use of technology. So can you elaborate on this -- how is this helping us, does it reduce our output time, does it increase our analytical ability?
- Mayank Singhal:** Broadly, they're developing ideas and technologies within the digital arena, where we're looking to how we basically bring about better efficiencies by looking at data analytics, that's really what we're doing. And which obviously backs capacity, throughput, efficiency and a, b, c, d, e. So it's multi-dimensional in the manufacturing chemistry.
- Dhaval Shah:** This is linked to your comment that it will overtime increase the asset turns?
- Mayank Singhal:** Yes.
- Dhaval Shah:** And just a last bookkeeping question, can you please tell us the nine-monthly number for Isagro's domestic and exports business?
- Rajiv Batra:** On the YTM nine months basis, almost 20% of our domestic growth comes from Isagro. Specific numbers, I would not want to give you.
- Mayank Singhal:** Let me just correct that question if I get that right. Yes, both is from the PI domestic business brand is about 17% and the average growth that you got; the balance is coming from Isagro. Isagro overall as a business from both the ends is contributing around 10% of the total top line growth as we mentioned in our numbers.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Rajnish ji, just was wondering if you could elaborate a little bit on our strategy in pharma going forward. Once we enter that space, are we planning to sort of replicate what we have done in terms of custom synthesis works similar to what we've done in agrochemicals or would we have a different strategy like for example, getting into maybe some, specialty APIs manufacturing or something like that, so, if you could just help us understand the strategic direction we are trying to move towards that would be helpful.
- Rajnish Sarna:** Sure, Abhijit. Yes, our aim in the pharma space is also to kind of get to the position that we have been able to reach in AgChem space I would say last two decades now. But here, little different from what we started with an AgChem. In AgChem we started with pure, contract research manufacturing kind of model... CRM or CSM model. Here we are starting with the intermediates and APIs space, basis is technology driven by our technological capabilities, and also the complementary technologies that we are also looking at the suitable inorganic option that we are evaluating. So basis these technological platforms, we will start with intermediates and APIs, but eventual idea is to kind of get into CDMOs and kind of replicate the similar kind of model that we have been able to successfully deliver in AgChem space. I hope I've answered your question.
- Abhijit Akella:** Yes, sir. that's helpful. Also just to understand in the second part, in terms of differentiating ourselves versus the other API companies that are already there in



India or the world markets, what kind of sort of differentiation strategy are we adopting, are we going to be more of a niche player in certain specialty segments or how do we visualize that that sort of competitive differentiation for ourselves?

Rajnish Sarna: And as you rightly asked, there are several players in this space, but the key differentiator for us is going to be technology, wherein we will get into less competitive or products where are less players, complex chemistry, we have got leadership, these kind of niche areas that we will finally view, and all this is driven by technology. So, that is the key differentiator or going to be key differentiator for us.

Moderator: Thank you. The next question is from the line of Mayur Parkaria from Wealth Managers. Please go ahead.

Mayur Parkaria: Just to understand the CSM part a little better, will it be possible for you to let us know or understand how many molecules are under actually in the synthesis stage and how many molecules currently are in the commercial stage?

Rajnish Sarna: At commercial scale, we would have some 24 -25 products. And at synthesis we call it R&D pipeline, which will start from lab scale to kilo scale to pilot scale. So, this is all R&D pipeline or you may also call it synthesis pipeline. There that at this point in time, we will have more than I think 40, 45 products and at any given point these many number of products will be there at different stages, some are at large scale, some are at kilo scale and pilot scale. I hope this answers your question.

Mayur Parkaria: Right. Sir, this is just a clarification understanding more on that is so, once the product enters the commercial scale, the sales value would be higher than compared to the R&D pipeline stage molecules. So, will it be fair to say that a lot of the incremental growth in sales value is coming predominantly from the commercial scale products, proportion, can it be as high as 70%, 80% or will it be more like 30%, 40%, the incremental sales growth which...

Rajnish Sarna: Just to clarify, actually revenue comes only from commercialized products. This R&D pipeline scale up synthesis is integral part of this whole business model. It is not that by synthesizing we are getting any revenue out of it. I mean, of course, there are some small sample preparations or some small supplies happen, but these are not significant in any case. So, the revenue actually comes from commercialized molecules, and the synthesis work right from lab scale till pilot scale is all integral part of winning the business, converting those enquiries into business, and then finally, getting into long-term understanding for supply or on PO-based supply for the products which get commercialized. I hope it clarifies.

Mayur Parkaria: Service revenue also for R&D pipeline stage as such?

Rajnish Sarna: That's not significant as part of this overall value.

Mayur Parkaria: Are we facing challenges with respect to the valuations at a reasonable...for the inorganic growth that we are looking with a long-term perspective in this space, given that there is a huge up-rise in the markets, and the excitement about the chemical and pharma chain, is the acquisition and M&A becoming a challenge there?

Rajnish Sarna : I will not say this is becoming a challenge. But yes, obviously, when, the market or the sector is in uptick, obviously, the valuations are good, but as I was trying to



mention earlier that this is going to be a strategic long-term investment for us, the valuation is not the only aspect, there are so many other aspects, what kind of value creation opportunities that are there by combining our own technologies and what kind of synergies are there, what kind of growth opportunities could be there if we combine these two set of capabilities and technology. So, there are several aspects that we are evaluating in our robust evaluation process. And this is not only valuation thing that since valuations have gone up, we are taking time, no, that's not true.

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

S Ramesh: Right now, if you look at the CSM business pretty much based on the asset turn and fixed kind of delta on the conversion cost. So when you talk about becoming an innovator company, does it give you more pricing power or will it still be based on the asset turn and with fixed margins?

Mayank Singhal: When you're in innovation, you look at what the customer can afford. And neither is even today the business based on an asset turn or this cost, and that cost-plus basis, it is more based on the service and value provision that we give to the customer. So, that's the way I would put it.

Rajnish Sarna: In fact, that this is outside in perspective of analysts view of the asset turn and ROCE and all, but from inside out perspective, if you look at it, while we started this business with, as a service provider and technology scale up kind of partner, but as we have gone ahead, over the years, these relationships with these innovators have gone deeper and deeper, because we have been able to add our own technological inputs alongside the technologies that are shared by innovators or customers. And yes, over these years, at least I would say last five, seven, eight years, we have been able to add significant value to the technological packages which are shared by our customers and we have been able to put a lot of value on table for our strategic customers. So this is the kind of business model in CSM we have today.

S Ramesh: Second thing is you mentioned you're aspiring for 20% CAGR in Isagro, which means very much doubling your domestic formulations business. So in terms of the resource allocation and the relative sizes of the domestic formulations business, and your CSM business incrementally do you see both these businesses growing at the same pace and the relative proportion remaining the same or do you see the domestic formulations business, increasing the share of the pie?

Mayank Singhal: The share of the global business would be larger, because the other business is capturing the whole globe where the domestic business is just working in one country, which is India, right? So if you look at that split, where obviously as scales happen, because there you're capturing every part of the globe, and you're capturing in this local part, although the growth rates will be there, but pie shares will change, but doesn't mean you're going to get marginalized in the domestic business in India.

Moderator: Thank you. The next question is from the line of Nousad Choudhary from Systematix Shares. Please go ahead.

Nousad Choudhary: A few clarifications sir. As of this quarter, how many active MPPs we have including Isagro. And when we say two are in pipeline, does that include MPP-5 and MPP-10? And if you can help me understand the economics of these MPPs, what is the



standard CAPEX required per MPP, and what kind of asset turnover do we generate from this?

Mayank Singhal: Well, it's a complicated question because if you get into looking at understanding the chemistry and process technology, it is looked at on a blended basis. Number one, there're multi-product plants. Number two, now it's not really Isagro, it's now PI... for clarity, Isagro is an integrated asset of PI now. And we have got 15-odd plants and one MPP is going to get commercialized. And what we have done is whatever asset we took, acquisition was done, we have turned it around into multi-product plants, which will be feeding our product pipeline requirements.

Nousad Choudhary: And the two which is in pipeline are MPP-5 and MPP-10, right?

Mayank Singhal: No, there is no MPP-5, MPP-5 is probably the first plant we built in Jambusar, which is about 10-years ago, its MPP-10 of Jambusar which is coming into stream, Yes, only one.

Nousad Choudhary: Second clarification on our QIP of Rs.2,000 crore. Typically, if any business has this clear expansion plan or have any prospects, so, first, they will have this concrete expansion or a plan or any acquisition plan, then they'll see their balance sheet, then if they don't have good money, then they might go for acquisition. So, here in our case, we did reverse, first we raised the money and then actively aggressively looking for the acquisitions. If you can help me understand the thought process of all this in part sir?

Rajnish Sarna: The thought process at our end is that the whole strategic direction to diversify into pharma, this didn't start after raising money through QIP as strategy was being discussed over last 3-4 years and accordingly, we started initiatives, firstly, at our end in terms of building technologies, strengthening some of these key technologies that we were already working, also started acquiring customers, building resources at our end in terms of our research and development, even in terms of technologies and also on the market side. So, the pharma initiative was taken at least three to four years ago. One of the examples which we shared maybe two, three quarters ago is that we were also able to successfully commission and then start supplies of one of the COVID intermediate in the last quarter of the previous year. Apart from this, we are already working on eight, nine products at our end in PI in terms of early intermediates pharma intermediate. So, in line with our strategic initiative of diversification into pharma, we obviously thought of scaling it up. So, one approach would have been to do all this ground up which may take several years given the regulatory framework and other things. But we decided that while diversification initiative we have already taken, let's look at inorganic opportunities to scale up this new business building and expedite the whole process. And this is the precise reason that we started looking out and in this process we also kind of raised funds through QIP to keep our war chest ready, because we were already evaluating opportunities and then came maybe this COVID situation. But I would say last two quarters, we are very actively evaluating several opportunities. We are right now at a good stage in terms of evaluating a couple of them. And the idea is once we conclude with one of these opportunities, this will help us scale up this pharma side of this CSM pretty faster than what we would have done or what we could have done ourselves. So, I hope this explains the background and also the strategic intent on this.

Moderator: Thank you very much. The next question is from the line of Nitin Shakhdar from Green Capital. Please go ahead.



Inspired by Science

- Nitin Shakdhar:** My question pertains to specific details on what we've mentioned on five pipeline products of CSM exports, which are commercialized in FY'21 and four pipeline molecules which will be commercialized in FY'22. Can you talk a little bit about the specific products and the specific molecules and the categories, and how do you envisage this to pan out in terms of accretive growth?
- Mayank Singhal:** Sorry, I just wanted to tell you that, as you know we are dealing with confidentiality with all our customers, so it will not be very correct and right for us to be able to do that. But broadly what I can answer that this is being done in the area there are about three to four products with nine in the non-agro specialty chemical area, the others are in the agro chemical area, of which two, three are newly innovative products. That's really where I will be able to answer best
- Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.
- Sumant Kumar:** You have commercialized two new plants in FY'20. So, can you tell us what is the utilization currently?
- Rajnish Sarna:** So, one of them is running at more than 70% to 80% kind of level and the other one is closer to 50%, but again in next few quarters will ramp up.
- Moderator:** Thank you. The next question is from the line of Deepak Chitroda from Phillip Capital. Please go ahead.
- Deepak Chitroda:** My first question is about our inorganic opportunity which we are looking at out of Rs. 2,000 crore which we have raised. So, basically just wanted to understand from your side that anyways we were already present in the pharma earlier and we are aggressively looking at the pharma space, looking at the asset now. So, as I understand we already had a very good relationship with our innovators or our customers who were apart from agro they were also doing kind of a pharma molecules or business. So, the thought process of PI in terms of acquiring asset here is to basically again to serve the same customers here?
- Mayank Singhal:** Not necessary. Yes, there are certain synergies which are there. So, that could be leveraged at some point. And I think we also have geographical credibility in the markets, which could help us leverage that as an organization for a specific country like Japan, where we could look at going into play with newer band of customers, which are more pharma-specific focused. So parallelly both could be there.
- Deepak Chitroda:** The second part to this is basically are we considering the opportunities in the domestic market itself so that on a cost-effective basis and we can basically grow much better or are we also evaluating options overseas?
- Rajnish Sarna:** Currently, we are looking at the opportunities in India more so, because of the COVID situation as you can imagine, it is quite feasible to kind of efficiently progress on these opportunities which are in India, as travel restrictions and other things are also there.
- Deepak Chitroda:** My second question is about the outlook for FY22. Can you just throw some light for FY22 towards the domestic side of the business kind of growth we can expect and similarly on the export side or the CSM side?

Rajnish Sarna: We will surely come up with this clear guideline in the next quarter, but given our current visibility and also the plans that we are taking for commercialization of new molecules on the export side, and also introduction of several new molecules on domestic side, we are confident of sustaining the growth of 18%, 20% in the next financial year as well.

Deepak Chitroda: Any acquisition or asset which we acquired that will be on top of the growth which we are targeting right?

Rajnish Sarna: Yes.

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

Vishnu Kumar: Is there an outer timeline by which you will complete the acquisition sir?

Rajnish Sarna: Our objective is to do it as early as possible and we are hoping that we should be able to do it within this quarter, but I would certainly not like to put a specific timeline and speculate on this.

Vishnu Kumar: Second on the domestic side. Awkira, you have done about one lakh acres. Any rough revenue and the opportunity size, because almost 30 million acres are there on wheat. So, we thought it's a fantastic product. So any upside that you can probably tell us about how much can be the penetration?

Mayank Singhal: So one lakh acre is what we have done and are seeing 30 million, so that's the opportunity size. Obviously, some of it doesn't have the disease spectrum of which Awkira controls. So, given that this is the seeding stage, and we expect that yes, this could grow substantially in time to come.

Vishnu Kumar: Rough revenue if you could just highlight how much we have...?

Mayank Singhal: Calculations being in the competitive space, we would not like to share.

Rajnish Sarna: Vishnu, we never talk about product-specific revenues or names and all that because of the kind of business that we are in.

Vishnu Kumar: If I'm right, apart from the MPP this year, you will add two more in the next two years?

Rajnish Sarna: Yes, obviously, this plan will get streamlined and finalized as we progress but given the current product pipeline that we are seeing for next two, three years, yes, that is one possibility.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: My question was that the acquisition that you're planning to do, will that be EPS-accretive right away or will it take like one or two years once you stabilize the business and then sort of then it becomes accretive to us?

- Rajnish Sarna:** Any acquisition will take little time to kind of start giving the desired and expected results. Integration time will be there. And as I was alluding to earlier that, our key driver is technology. So technology integration and all that is certainly going to be there to kind of deliver the expected and desired results.
- Mayank Singhal:** Right now we are in the process of evaluation as Rajnish mentioned, and obviously, our objective, as he mentioned, is to make it accretive and sometimes when we look at for then the synergy and what and then we can give specific answers to that, right.
- Madhav Marda:** You have mentioned that you have started supplying to a new specialty chemicals customer. So in the presentation, so is that something beyond agrochemicals or into like personal care or something like that? I wasn't very clear on that.
- Mayank Singhal:** It's a different area of application. Yes, we're going to the specialty chemical there by expanding our horizons into different application areas beyond AgChem.
- Madhav Marda:** Could you specify which industry that would be?
- Mayank Singhal:** This is not in food, but in other additives.
- Moderator:** Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share & Stockbrokers. Please go ahead.
- Rushabh Sharedalal:** Just wanted to understand that this order book of \$1.5 billion, is it take or pay order, is my understanding correct? And also wanted to know the cash flow from operations for the nine months ended December '20?
- Mayank Singhal:** Well, take and pay is an understanding, but obviously the order book is not a full composition, the take or pay, in certain cases, no.
- Rushabh Sharedalal:** What percentage of the order book will be taking or pay if you can just share with me?
- Mayank Singhal:** Don't have the numbers right now and would restrain from giving any forward statement on that right now.
- Rushabh Sharedalal:** And if you can help me with the cash flow from operations for the nine months?
- Rajiv Batra:** Yes, I think it's given in the press release as well; Rs. 301 crores for the nine months, which is free cash flow. While cash flow for nine months is Rs. 670 crores.
- Moderator:** Thank you. The next question is from the line of Ronil Dalal from Ambit Investment. Please go ahead.
- Ronil Dalal:** You have highlighted regulations as a potential risk. So is the farm law which is centered around MSP for wheat and rice, it's likely to impact your target market or growth opportunity? I understand like a Nominee, Awkira, Londax, all of them will be impacted right, rice production?
- Mayank Singhal:** I don't see any impact of the farm law that's more benefiting the farmer, nothing to do with products, that is not coming in our purview is my understanding.

- Ronil Dalal:** If there's any kind of indication that if there is no minimum support price, will there be less farming of these products, and hence, could it impact some of your target markets?
- Mayank Singhal:** I don't think that's going to be the case, I mean, that's never the practice that is going to be. Probably better for the farmers, want to get a better price rather than get a minimum price. And if he wants productivity and yield, and make it to become more competitive, he probably demands more. That's the way I look at it, because productivity will be a focus, not the input because the input cost of agrochemicals is a very small percentage of the total input. So the focus is going to be on improving productivity and yields and agrochemicals is a larger contributor in making that happen, whether you're buying.
- Ronil Dalal:** Other than that, what would be the wheat and rice link share of domestic revenue, if you have some ballpark number?
- Mayank Singhal:** So we are one of the largest players in the rice and wheat, but we don't have the numbers in hand. And we are continuing to expand in the other crops. So, that's going to be potential for most of the companies, because those are the two large agrochemical consumption crops.
- Ronil Dalal:** Would it be fair to say it's more than 60% of domestic revenue?
- Mayank Singhal:** I can't say that right now because I don't have the numbers right on my hand. But typically the industry is in that in 50%, so we should be also in line, if not a bit more on that.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Mayank Singhal:** So thank you, everybody for coming on today. Appreciate the support. And we continue to wish everybody a safe and healthy journey ahead in these challenging times. And look forward to meeting you guys once again in the near future.
- Rajnish Sarna:** Thank you.
- Moderator:** Thank you. On behalf of PI Industries Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

This is a transcript and may contain transcription errors. The Company or the sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.