PI Industries Limited
Q4 & FY2019 Earnings Conference Call Transcript

May 20, 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the Q4 & FY2019 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Sir.

Nishid Solanki: Thank you. Good afternoon, everyone and thank you for joining us on PI Industries Q4 and FY19 Earnings Conference Call. Joining us today are senior members of the management team, including Mr. Mayank Singhal - Managing Director and CEO; Mr. Rajnish Sarna – Executive Director and Mr. Subhash Anand -- Chief Financial Officer.

We will begin the call with key thoughts from Mr. 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, before we begin: Certain statements made or discussed on the conference call today may be forward-looking statements and the disclaimer to this effect has been included in the 'Results 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: Yes, Good afternoon and Thank you. So, I am glad to share my views on the performance of PI and the prevailing trends in the Agchem market. We once again have demonstrated a solid performance during the quarter backed by our strong line up of brands as well as expected scale up in the Custom Synthesis (CSM) exports business.

Our revenue reported 29% growth in the quarter under review while EBITDA expanded by 27% which led to stable EBITDA margin of 21.3%.

For the fiscal year as a whole, our revenue grew by 25% YoY, EBITDA by 16% and PAT by 11% YoY.

We have been meticulously planning and working to strengthen our reach in the key crops as well as boost our crop yields through attractive line up of our exclusive brands. Our niche products portfolio which is second to none has already created a positive impact in the market and continues to grow.

During the year, we have launched two new molecules and expect to launch another two to three in the coming year. Additionally, in line with our objective of strengthening the digital infrastructure, we are putting in more technology to penetrate deeper in the key agrarian markets and also engaging with the farmer to optimize their crop productivity. We are the first, who have just rolled out advanced tech in agro systems which have maintained optimal availability of products in the market during key seasons and also advice the farmer on the right solutions.

Further, the monsoon in 2018-19 season was below average by 10% and there are sharper decline in the post-monsoon rains. Several key crops growing areas have received lesser rains than earlier forecasted. This pattern of inconsistent rainfall has been same during the past few years. As a result of this, the market for agri-inputs have been weaker. Rabi crops faced the problem of moisture stress in the southern states and got aggravated by deficit of winter rains. The states of Andhra Pradesh, Maharashtra, Rajasthan, Gujarat, Jharkhand, Odisha and Karnataka have been significantly affected by the drought. Subsequent decline in the sowing of Rabi crops was led by deficient Northeast monsoon rains and dry conditions. While the overall sale volume in the industry has improved YoY, the pace has been moderate.

Now coming to our exports operations, we have witnessed a robust quarter as the molecules are successfully scaling up in manufacturing operations with increase in capacity utilization and also seeing significant increase in shipments. We believe this pattern to continue with the healthy order book and a very good pipeline of molecules under the R&D stage and gradually moving to the commercial stage.

During the year under review, we have commercialized three new molecules and we will continue to commercialize at least three to four new molecules every year for the next few years from our R&D pipeline.

Looking for long-term order book, higher plant utilization rates and increased pace of commercialization in new products, we decided further to intensify capacity buildup at Jambusar. Apart from the two multi-product plants, which should be able to get commissioned in the current fiscal year, we have begun initial work on one more multi-product plant and we are evaluating options to add more capacity.

The roadmap for FY20 appears promising and we remain optimistic of reporting sustained growth momentum driven by robust order book position and easing global inventories globally as well as exciting portfolio of offerings and efficient execution. Our initiatives for building new technology platforms and finding and establishing additional further growth engines beyond agro chemicals are progressing well. In addition, our manufacturing site in Panoli wins the Golden Peacock Environment Management Award for the third time. PI has been *rated by EcoVadis in GOLD* category for second consecutive year and we are now a part of the top 1% in labor practices and safety amongst certified Agchem sector.

I will now request our CFO – Subhash to share his perspective on financial performance for Q4 & FY19. Over to you, Subhash. Thank you.

Subhash Anand: Thanks, Mayank. Good Afternoon, everyone. I am happy to take you all through the financial highlights of Q4 and the Year 2019.

Our total revenue stood at Rs. 805 crore in Q4 as compared to corresponding period last year, higher by 29%. The Domestic business grew at 4% from Rs. 187 crore to Rs. 195 crore backed by the healthy growth in key brands despite softer demand given the poor distribution of rainfall in Rabi and lower agri produce prices.

Export operations reported 39% growth from Rs. 438 crore to Rs. 610 crore during the quarter, as a result of sustained build-up in execution momentum as planned.

As informed in our earlier call also, Company has adopted modified approach under IND AS 115 and we have not reinstated our last year quarterly result, hence the numbers are not comparable due to timing difference in revenue recognition.

EBITDA for the quarter stood at Rs. 171 crore and the margin came at 21.3% aligning to better product mix and operating leverage. Our PAT for the quarter stood at Rs. 124 crore, up by 18% as compared to same period last year.

Talking about full year FY19 performance, we have registered a healthy performance trajectory with topline growth of 25% as compared to corresponding period last year. Total Domestic revenue stood at Rs. 957 crore, 16% higher versus previous year. On our exports front, full year revenue was Rs. 1,884 crore that is 29% higher versus previous year. EBITDA stood at Rs. 573 crore translating to margin of 20.2%. Profit after tax came at Rs. 408~~3~~ crore. Effective tax rate was 23.7% versus 20.9% in previous year. There was an increase of almost 3% in effective tax rate. This is due to change of share of business mix between SEZ operations and rest of the businesses.

Our balance sheet further strengthened during the quarter on back of consistent build-up in performance. The net debt position was nearly zero and the cash surplus on 31st March was Rs. 195 crore. Average net working capital improved from 108 days to 101 days; however, year-end net working capital as a percentage of revenue was higher at 26% of revenue compared to 24% last year. This increase was mainly due to higher sales in the last quarter. So, that has impacted overall working capital at the year-end.

Now, let me share that the board of directors of the company have recommended a dividend of Rs. 1.50 per equity share. With this, the total dividend for the year stood at 400%, that is Rs. 4 per equity share.

Let me also share outlook for FY19 and FY20. Continuing on our current year build-up what we have registered so far, we expect revenue for the company to be growing in the range of 20-22%. In addition, we are also expecting improving EBITDA margin by 50 to 100 basis points in FY20. ETR is expected to be around same level of 23.7~~5~~%. Revenue growth of 20-22% what we are looking forward, that is basically momentum in exports to continue to maintain on the back of aging global inventory and firm requirement from innovator customers. Commissioning of additional capacities in MPP-8 and MPP-9 will improve run rate of our business. Ramp up of recent launches and commercialization of three to four new molecules will drive the growth of our exports business in the current year.

On Domestic front, we have both headwinds and tailwinds coming in this year. While discontinuation of Foratox will negatively impact the revenue, but launch of two to three new products coupled with ramp up of recently launched products will drive the growth in the coming year.

In view of the expected demand, we will continue to invest in building more capacities. CAPEX is expected to be in the range of Rs. 400-450 crore in FY20.

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

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Atul Tiwari from Citigroup.

Atul Tiwari: Congratulations on a very strong set of numbers. This revenue growth guidance of about 20-22% in FY20, how is it split between Domestic and Exports business – is it similar across both or higher in one and lower in other?

Rajnish Sarna: It would certainly be marginally higher in our Export products. But yes, on a blended basis, we are expecting it to be 20-22%.

Atul Tiwari: Any number you can put on Domestic and Exports separately?

Rajnish Sarna: Hypothetically, we can talk around 25% in Exports and less than 20% in domestic. But as you can appreciate that the Domestic season is highly dependent on monsoon and how this whole season progresses. So, it is not reasonable to put a specific number. So, it is range-bound. We are confident that on a blended basis at a company level, we should certainly be able to manage a growth around this number.

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

Abhijit Akella: Just two clarifications. One is how much would be IND AS 115 benefit in terms of revenues for this quarter?

Subhash Anand: Revenue of this quarter is around Rs. 38 crore.

Abhijit Akella: On a full year basis also if you could just help us?

Subhash Anand: It is around Rs. 100 crore.

Abhijit Akella: Second, just on the EBITDA margins, we were targeting about 21% for FY19. We have fallen a little bit short of that. Is that because of any specific pressures on the raw material cost front and if so, how do you see that going forward now in FY20?

Rajnish Sarna: Two-three reasons: One was obviously the raw material issue that you mentioned. In the initial period, various raw materials because of uncertainties in China and other chemical areas, there was lot of spurt in raw material prices which impacted the margins in short-term. The other reason is obviously the product mix also. Given the challenges that we had seen in domestic season, there were also challenges of product mix. So, combined effect of this is the impact of the marginal reduction in overall EBITDA margins.

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

Aditya Jhawar: Congratulations on a good set of numbers. One thing I wanted to check, in the last couple of quarters, we have consistently raised our CAPEX guidance from about Rs. 200-250 crore to almost about Rs. 400-450 crore and the order book accretion in the last couple of quarters has been roughly at about $250 million. So, if you can highlight that did we break into some new innovator or we are broken into new chemistry cluster, what gives us this confidence of such a high CAPEX and high revenue guidance?

Rajnish Sarna: This is basically coming out of the research pipeline that we have of various R&D projects moving from scale up stage to commercialization, the overall visibility of conversion has substantially improved, the number of projects itself have substantially improved as we also discussed in last few calls. As a result, currently we are working on capacity utilization of over 90% in most of the assets which also in a chemical plant you can imagine it is a very-very significant level of capacity utilization. So, keeping in mind all these aspects and also in the existing products, demand scenario as being commented or projected by our global partner are also very clear now which are also reflecting in the capacity utilizations and supplies over last couple of quarters. So, all this is reflecting now in demand for new capacity and hence the CAPEX plan for coming years is certainly higher than what we were visualizing them maybe couple of years back.

Aditya Jhawar: On our plans on pharma, any update on that front?

Rajnish Sarna: Nothing concrete as yet. We were looking at few inorganic options as we discussed in last few calls. So, right now on pharma front, we are confining to early stage molecules that we are doing at our pilots and maybe semi-commercial stage. So, we are certainly doing some pharma intermediates but the action or initiative that we thought of some inorganic approach is still not crystallized as yet.

Aditya Jhawar: Final question is the numbers of molecules commercialized this year were about three. So, what is the total count? Is the number correct, three molecules commercialized in the CSM business in FY19?

Mayank Singhal: Yes, that is right.

Aditya Jhawar: As we speak, how many molecules are there in the CSM businesses that are totally commercialized?

Subhash Anand: 20 to 23 products.

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

Levin Shah: Congratulations for good set of numbers. Firstly, on CSM, a couple of quarters back, you had spoken that we were about to finalize few long-term contracts over next two quarters. So, where are we on that?

Rajnish Sarna: Some of them we have finalized and some of them we are negotiating.

Levin Shah: Are those orders already part of the order book?

Rajnish Sarna: Yes, some we have negotiated are already part of the order book.

Levin Shah: On CAPEX, one of our plants was going to come on-stream in Q4 of FY19. So, has that plant already started running?

Rajnish Sarna: Yes, we commissioned one plant in the last quarter somewhere in February which is already on.

Levin Shah: So, last year i.e. FY19, we have commissioned two plants in all, right?

Subhash Anand: No, we have commissioned one plant in the last quarter of FY19 and we expect to commission one more plant towards the end of this quarter, that is what we are expecting or early next quarter.

Levin Shah: So, the plant which will be commissioned now has been delayed by a quarter or so?

Subhash Anand: That is right.

Levin Shah: So, next year this Rs. 400-450 crore of CAPEX which we have announced, is this for both the plants put together and both of them would be commissioned in the current year FY20?

Rajnish Sarna: One, of course, will get commissioned in the fourth quarter of FY20 and the second MPP maybe late part of Q4 or first quarter of next financial year.

Levin Shah: Lastly, on this margin, if we see the gross margin this year, it has come down over last year by around 200 basis points plus. So, we are guiding for around 21% margins. So, where do we see gross margins and how has been the raw material pricing pressure?

Rajnish Sarna: Raw material pricing pressure or situation has certainly improved over what we have been seeing in the early part of last financial year versus what we are seeing today.

Secondly, in certain cases, this has also become a new norm also, so the price corrections have also happened. So, all in all the gross margin level should also marginally improve in the next financial year and this should reflect in our overall EBITDA margin improvement.

Levin Shah: So, in this 50 to 100 basis points improvement what we are guiding, this is taking into account the gross margin improvement that will come through?

Rajnish Sarna: Yes.

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

Sumant Kumar: Whatever growth we have delivered in the CSM business, how much growth has come from the currency volatility for this quarter?

Subhash Anand: This quarter, on overall revenue what we have, around 5 to 5.5% of the revenue came from FX. It does not mean the EBITDA has gone up in a similar level.

Rajnish Sarna: Generally what happens that in this exports context, the price also gets adjusted with the movement of FOREX whether it is up or down. So, this should not be taken as interpretation that if rupee has moved 5% which means that the whole revenue 5% has come because of FOREX is not necessary because it also reflects in the pricing.

Sumant Kumar: Can you share the constant currency growth for the quarter, for the year for CSM?

Mayank Singhal: If you look at the constant currency growth, there is nothing like constant currency, you are a pure exporter, there are a lot of adjustments that are done on the currency basis from customer-to-customer basis and raw material basis. So, we would look at the number to number growth on a million dollar basis.

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

Vishnu Kumar: Could you just give us the capital expenditure number for FY19?

Subhash Anand: For FY19, we have entailed a CAPEX of Rs. 368 crore.

Vishnu Kumar: Of this, the plant that you have recently commissioned in February, what would that number be?

Rajnish Sarna: That is Rs. 200 plus crore but there are several other infrastructure utilities that are also installed along with plant. So, it is not only the manufacturing or MPP but there are many other infrastructures related to that.

Vishnu Kumar: You mentioned that Rs. 400-450 crore is what you will target for next year. If you are looking ahead let us say FY21 and FY22, do you see a similar number or how should we look at the capital expenditure down the line?

Rajnish Sarna: At this point, seeing the current realization that we have on our order book as well as on our R&D pipeline and the demand scenario, we expect that we will be continuing this kind of CAPEX and we are certainly reviewing this situation every six months, every quarter, but at this moment, yes, we believe that we will be continuing because lot of demand is there and as I mentioned earlier that we are already running at more than 90% capacity of our facilities.

Vishnu Kumar: Just to look at your numbers in FY20 based on the growth rates you talked about, incrementally the export business can grow by another Rs. 400-500 crore and you did mention that 90% is the current utilization and we had a plant that just went live in February. So, will the new plant carry much of your revenue growth in FY20?

Rajnish Sarna: That will certainly contribute to this growth majorly but then there are several other products because product mix is also one factor in growth. A particular molecule that we were producing last year there could be significant increase in volume of that molecule also in other plants as well and the product mix can also change.

Vishnu Kumar: In terms of the land availability, how many MPP plants can we currently look at with available land that we are currently running with?

Rajnish Sarna: In current land, we can have another three to four plants.

Vishnu Kumar: In the Wheat Herbicide, is all the approvals okay sir?

Rajnish Sarna: Yes, it was approved.

Mayank Singhal: I think things are in line and once we hear, you will know better about it.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital.

Kunal Mehta: You mentioned the demand commitments from the customers have increased and you are seeing increased visibility with respect to the conversion of your order pipeline into firm orders. If we go two three quarters back the whole global chain was still recovering. So, I just wanted to understand what has changed from your customers end that they have now become a lot more firm in giving you commitments about the future orders?

Rajnish Sarna: Two, three things. I am sure you would have also looked at, in 2018 after four years there is a reasonable growth in the global industry, more than 6% and particularly in markets like North America and also Latin America, the growth is even higher. So, that is certainly after 2014, 2018 is the year where the industry major players have registered and these markets have registered good growth, this is one.

Second is that the inventory levels have also gone down because since 2015 the market was only going down and there was a lot of inventory in the system. And from 2016 onwards, they were kind of cutting their procurements to normalize this inventory. So, over last 2 to 2.5-years they have been doing this and as a result of that the inventory levels have also now come down to quite reasonable levels, and that is also kind of now pushing further procurement. This is another reason.

And thirdly, there is also not necessarily for all the products or across the board but there is also supply uncertainty from China as you would have heard of. So, these are few reasons that the overall demand scenario is looking positive and particularly again this goes product-to-product but for products that we are dealing in, we are seeing this situation.

Kunal Mehta: Just a follow up on this one. So, is it safe to believe that this level of procurement from the innovators would at least go on for the next two, three years until they replenish the whole channel?

Rajnish Sarna: Yes, we can expect so.

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

Rohan Gupta: First question is on our CSM business. We have seen very strong growth during this year. So, this is primarily coming from the one or two products which we have launched or is it across the product portfolio that we have seen the growth in the current year?

Rajnish Sarna: It has certainly come from several products, not one or two products, as you can also imagine that this business would have maybe 20-23 products.

Rohan Gupta: Is it not dependent or large part of growth has not come from the products which we supplied to Kumiai Chemicals and which product has done very well globally and that has led to such a sharp increase in FY19 CSM revenues?

Rajnish Sarna: Not really, because we have introduced three new products in this year. Apart from that, there were several other existing products where the demand has substantially increased in the current year which was down. Demand were little soft in last one or two years because of the global situation. But again this year as I was explaining earlier because of the inventory normalization the demand was high. So, it is across, it is not dependent on one product.

Rohan Gupta: The drivers of growth which you just mentioned in global market, for you is there any product benefited so far from the supply of uncertainties from China increasing in your portfolio?

Rajnish Sarna: There are a couple of products where there were alternative suppliers in China, obviously these were large Chinese companies. Because of challenges there, the allocation of quantity was more towards PI.

Rohan Gupta: So, your two to three products have benefited from the China disruption?

Rajnish Sarna: Only two products, not more.

Rohan Gupta: You mentioned two products last year have benefited from the China disruption. Do you see that any more products in FY20 are going to benefit from the same thing?

Rajnish Sarna: Not really. Not that most of the products that we are dealing, we have the other alternatives in China, that is not the situation. So, as I said, there are a couple of products where there are alternative suppliers in China and on those products we have got benefited and that benefit will continue till the time the Chinese situation improves.

Rohan Gupta: Another question is on domestic market. So, we were close to at Rs. 800 crore turnover in domestic market till last four years except this year where we crossed almost close to Rs. 1,000 crore turnover mark. I understand that now you are close to third largest player in domestic market. Despite, we see that domestic market this year was pretty weak, you have reported very strong revenue growth. If you can just share some more details about the domestic market, say top-3 or top-5 products concentration in revenues because we saw that in FY15 to FY18, our Nominee Gold sales was deteriorating and that is why the sales was not increasing, this year only we saw such a huge growth. So, if you can spend a little bit more time on that, how do you see the domestic growth, whether it is still dependent on one or two products or it is now broad-based and what is the product categories which you see that is going to drive including even wheat herbicide which you are planning to launch?

Mayank Singhal: If you look at the domestic business growth unlike in the CSM business has come from a bunch of products that we have added and obviously the key products continue to grow and like any company in the business has two to three main products that drive the market and the crop segment that we focus in. We have added some new products and on the other hand we also have certain vacuum in our branded segment like Foratox. So, we have augmented by adding another generic product there. And obviously, we are adding two to three new products for better portfolio solution. Regarding the Wheat Herbicide, clearly, we will have to first get the registration, once we are in the market. As you know there is huge investments upfront in herbicide market for first few years and once we see the outcome, the positivity of such results, we expect the performance to be evaluated accordingly in the future.

Rohan Gupta: Top-5 products in domestic market, would you be able to share the revenue contribution?

Mayank Singhal: For competitive purposes, we would not like to share that right now.

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

Nitin Agarwal: On the CSM business, typically we have had in the past years slightly lumpy quarter, in the sense second half typically been more skewed. Do we see the same trend going through even for FY20?

Rajnish Sarna: Yes, we had heavy second half in FY19 and we see a similar kind of trend as well in FY20.

Nitin Agarwal: What was the R&D spend that we have incurred this year and how has that sort of increased over the last year?

Rajnish Sarna: The numbers are not in front of us but yes certainly we can share the number offline, but in terms of trend we have been only increasing the spend and this has continued by 15 to 20% higher spend that was there in R&D.

Nitin Agarwal: Overall, when we look at the business where it is right now, and the fact that we have had very strong revenue growth this year and our visibility for revenue growth even for next two, three years at least seems extremely strong. So, in this business do we get operating leverage the way the business is structured or the business is not really aligned to a meaningful operating leverage?

Rajnish Sarna: There is certainly operating leverage benefit that should accrue as we cross a scale or we reach to a scale. But at the same time since we are also kind of spending for various other channels for future growth beyond ag-chem and beyond the routine growth in this manufacturing area, obviously it is a very cautious effort to kind of invest in those future growth drivers. So, in short-term, these leveraging benefits or operating leverage benefits may not be very clearly visible and reflect in these numbers but sure beyond a point these will start reflecting and will kind of reduce and rationalize our growth investments. But right now, as we discussed earlier, because of this very high visibility and opportunity that we are seeing in front of us, we are continuing our growth investment and therefore this may not clearly reflect in operating leverage benefit.

Nitin Agarwal: Will it be possible to qualitatively give us some sense when we talk about these growth initiatives, in what way some of these things can really pay off for you, just some illustrations for that?

Rajnish Sarna: Obviously you can understand that we will not be able to talk very specifically but some of these investments are in technology building blocks that we have been talking and we have taken initiatives and some of these initiatives have already fructified, some of these are still in progress. We are also looking beyond in terms of technology, beyond agrochemicals and those areas that we are kind of investing currently. And how they will kind of reflect and benefit, obviously, whenever you will invest in new areas, the initial three, four years, there is investment but beyond these will start clearly reflecting in opening up new stream of revenues in certain ways or improving the cost structure of the technologies in some other ways, so this will certainly reflect in due course of time in the overall revenue as well as profitability of the organization.

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

Rajesh Kothari: Congratulations on a good set of numbers. My two questions are when you look at current capital expenditure, one is what kind of asset turnover you are looking for FY19 and FY20 from here on?

Subhash Anand: In our kind of industry, normally we see asset turnover of 1.5x, that kind of asset turnover is manageable or maintainable and that is what we foresee.

Rajesh Kothari: How much time it may take for you to reach that 1.5x?

Rajnish Sarna: Should not take much time because as we have discussed in past that this capital investment normally that we are making is based on the clear visibility and commitment on revenue. So, it is not that we are investing and then we are looking for products to fit in those multiple product plants. We already have those products and the business commitment and then we are making investments. Normal scale up time whatever is there in a chemical plant that much time it takes; it takes anywhere between six to nine months.

Rajesh Kothari: So, you are trying to say that FY19 CAPEX which was about close to Rs. 350 crore, that Rs. 350 crore should give you Rs. 500 crore annualized revenue starting August – September kind of thing?

Rajnish Sarna: Normally it is like this.

Rajesh Kothari: Of this total CAPEX Rs. 350 crore plus Rs. 450 crore for current year, close to about Rs. 800 crore, is bulk of it kind of Brownfield, can you give some color on the total CAPEX details?

Rajnish Sarna: Bulk of it would be in capacity build up, but then there is also lot of infrastructure investment as you can imagine in a chemical plant, when you put up a facility, you also have to have investment in affluent and environment management and lot of utilities and lot of other infrastructure investment, and then of course apart from that, we are also continuing our investments in R&D. So, all that is part of this.

Rajesh Kothari: So, in that case when you say 1.5x asset turn, when you speak with other CRAMS companies, including pharmaceuticals companies, normally they say that on infra investment one should not assume high asset turn because the environment or affluent or utility at times might be little bit kind of a building facility that may not give the general industrial asset transfer. I am just trying to understand that when you mentioned 1.5x, you are saying 1.5x on the total. So, what does it mean?

Rajnish Sarna: Just to clarify, it certainly does not mean that it is 1.5x on total. 1.5x to 1.75x is aspirational asset turn that we always look for, this is also our investment, financial hurdle rates and all that. We go by that benchmarking. It will start from your operational production capacities as you rightly pointed out and then generally once the plant occupation and utilization matures, then it will start reflecting much more than 1.5x. So, on a longer horizon, yes, 1.5x or 1.7x could be for the total investment but to start with it, it will start with the operating or production plants only, not from infrastructure.

Rajesh Kothari: So, of this Rs. 800 crore, how much is say for research and how much is for infrastructure and how much is for operational kind of thing?

Mayank Singhal: We do not have that readily available now.

Rajesh Kothari: But is it a good like three-digit in research kind of thing because your research spend is also moving up if I look at last five years trends?

Rajnish Sarna: This number you are asking is not in front of us, but yes, there is a significant investment in research as well.

Rajesh Kothari: My second question is with reference to EBITDA margins. If I look at your CRAMS business of course normally it would have the better margin. So, even the current new CAPEX which you are doing, whether that would have similar kind of margins and how the pass-through works in this part of business?

Rajnish Sarna: Yes, all these products that we are projecting would have a similar kind of margin profile and pass-through generally is that all these currency related or raw material price related variations ups and downs are kind of shared with the customer. This is generally the understanding.

Rajesh Kothari: This Rs. 450 crore CAPEX which you mentioned, when that will come on-stream?

Rajnish Sarna: Part of it will get in operations in the last quarter of this current fiscal and part of it will come in the first quarter of next fiscal.

Rajesh Kothari: So, when you say part means can you quantify how much part is?

Rajnish Sarna: Maybe we can have a separate discussion on all these details, gentleman.

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

Prashant Biyani: Are we also going to export 'Bispyribac Sodium' through the joint venture to Kumiai?

Rajnish Sarna: Right now there is no plan but yes, maybe in future we can look at that.

Prashant Biyani: The 'Bispyribac Sodium' that we are likely to manufacture along with Kumiai indigenously, so revenues from that will start from when?

Rajnish Sarna: Revenues will start from second season of this year.

Prashant Biyani: That we are taking as a separate joint venture or this would be coming under standalone entity only?

Rajnish Sarna: Whatever sale transaction will happen from joint venture company will come obviously in joint venture and the brand sale will continue with PI, so that sale will reflect in PI.

Prashant Biyani: Which crop or which geographies do you see driving growth for the CSM business next year?

Rajnish Sarna: Most of it, as I was saying earlier North America is doing well, except Europe, I think all these regions and markets are doing well. If you see 2018 and also current commentary, Latin America is doing reasonably fine, Asia is doing fine.

Prashant Biyani: Next year commitments are also directed mostly towards NAFTA and LATAM only?

Rajnish Sarna: No, we are not directly selling in these markets. I am saying these markets are doing fine. We are certainly selling our products to these global companies who are spread across all these regions.

Prashant Biyani: But we would be selling to the innovator geography only I mean, most of the innovators are spread globally, so whatever products they would be requiring in Europe, they would be asking us to ship to Europe?

Rajnish Sarna: Sometimes we are supplying the final product, sometimes we are supplying the intermediates, it all depends on the product. Not necessary that all the products will go in the end market.

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

Abhijit Akella: Just one follow-up. On Foratox, could you just explain the timeline over there, till when are we allowed to sell the product and by when that will be discontinued?

Rajnish Sarna: The manufacturing is already discontinued. Now I think the formulation we can sell by the end of this year 2019.

Abhijit Akella: So, FY21 will be the first full financial year without contribution from the product?

Rajnish Sarna: Yes, but this is working on calendar year.

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

Vishnu Kumar: Just on the exports growth rates, would it be possible to just directionally tell us how much of the growth would be towards refilling supply lines and say how much of the growth would be more towards new products?

Rajnish Sarna: Very difficult, frankly we would not have this number readily available, but yes, it gives us good understanding clue, so we will certainly work out and discuss with you separately.

Vishnu Kumar: While we all want the industry to do good, if one were to play devil's advocate and see that FY16 and FY17 does not recur, so what are the things broadly that you would watch for in the global industry the situation does not come back again in FY21 or FY22?

Rajnish Sarna: We would certainly watch for cautious approach on the scale ups, investments and certain spurt in volumes of certain products before making significant investments.

Vishnu Kumar: At the end market side, if you were to look at let us say the end market in FY17 or FY16 was not that good. So, if you were to probably look at the end markets, are there any two, three key variables that you continue to track and you probably would scale back from that side, if the end market does not do good, you would not make capital expenditure on that side?

Rajnish Sarna: I think the sector to look for there are obviously the acreages that how are the acreages moving, secondly, what is the competing scenario of those products, are there some new technologies or products getting introduced, what could be possible threats for those products and all and then of course the agri produce price, whether it is remaining competitive or not.

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

Rohan Gupta: This is only on margins. So, you mentioned in your guidance of 50-100 basis points margin expansion, while we have seen that in FY19 your EBITDA margin came down to as low as 20.3%, we have seen almost 200-250 basis points higher margin than that earlier. So, are we looking at these margins guidance of 50-100 basis points in a very conservative way because if the revenue pick up happen and with the operating leverage itself we should be able to achieve those numbers or even more than that, so are we looking at the margin conservatively or you see that there is some cost pressure which has built up and that is why the margins are likely to remain here?

Rajnish Sarna: Again, it is a perspective but lot will depend on how the domestic season spans out and also the general raw material supply situation. As I said earlier, FY19 margins were marginally lower compared to earlier years with more than I think 100 to 120 basis points, mainly driven by these two factors – one was obviously the raw material prices which have suddenly spurt and in many cases the pass-on could not happen given the end market situation and also product mix. So, on these two fronts, obviously, there is improvement as we are seeing today for a last quarter or so, even in fourth quarter as you can see that we have moved from 19% to 21%. So, that improvement is clearly reflecting over last couple of quarters and that is what we expect that on both these fronts we should be doing fine, but lot will depend how the domestic season pans out and if the season is exceedingly well than yes, then we can come back and say that these estimates were little conservative.

Moderator: Thank you. The next question is from the line of Prashant Tiwari from SBI Capital.

Prashant Tiwari: You mentioned that in last quarter i.e. Q3 FY19 the impact of currency on the bottom line was Rs. 8-10 crore. What would that number be this quarter?

Subhash Anand: Prashant, that number right now is not in front of me but as Mr. Sarna spoke earlier also, in this business currency is finally passed on and it is adjusted to the overall pricing. So, it will not have material impact when it comes to EBITDA margin, when it comes to currency. But yes, we can work out and we can discuss this offline.

Prashant Tiwari: Second one, on Rs. 100 crore of IND AS revenue impact, what would be the corresponding EBITDA number?

Subhash Anand: PAT impact is around Rs. 23 crore. EBITDA number is not right in front of me, let me work out this number, but it will be around Rs. 30 crore.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Management: Thanks everybody for coming on call and listening to our commentary. We look forward to all your inputs and will connect with you again in the next quarter.

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