PI Industries Limited
Q1 FY19 Earnings Conference Call Transcript
August 07, 2018

Moderator: Good day and welcome to the Q1 FY19 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Mr. Solanki.

Nishid Solanki: Thank you. Good evening, everyone and thank you for joining us on PI Industries' Q1 FY19 Earnings Conference Call. Today, we are joined by senior members of the management team including Mr. Mayank Singhal – Managing Director and CEO; Mr. Rajnish Sarna – Executive Director and Mr. Subhash Anand – Chief Financial Officer.

We propose to commence with perspectives from Mr. Mayank Singhal; thereafter we will have Mr. Subhash Anand, sharing his views on the financial performance of the Company. After the opening remarks from the management, the forum will be open for question-and-answer session.

A cautionary note:

Certain statements made or discussed on the conference call today maybe forward-looking statements and a 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: Thank you. Good evening and welcome to everyone. So, I am indeed pleased to share with you my thoughts on PI's performance for Q1 FY19 and the overall business outlook.

If I keep aside the IND AS 115 transitional provisions impact on financial results presentation, which Subhash is going to explain in his commentary, I think we had a strong start for the FY2019 with ~23% growth in our domestic revenues and a similar kind of growth in production and dispatches of our exports in line with our plans.

Growth in domestic revenues is mainly driven by positive market sentiments in anticipation of normal monsoon, rise in the MSP's and expected upside from many of the new brands launched in the past couple of years. Many of these exclusive launches we have made in the past 2-3years are now giving us good volume traction and we see them becoming top performers in their segments. There is a lot of emphasis on farmer connect and ensuring that he gets quality advice and at PI, we have been able to significantly improve this connect by use of new age technological solutions to the farmer. The progress on new launches and registrations are moving in the right direction.

On export front, the orders in hand are almost of the projected revenue for this fiscal year, we are sitting in a very strong position. There is a ramp-up in production, dispatch activities in the first quarter, in line with our plan and we are de-bottle-necking our capacities to further ramp up the production volumes and dispatches, which shall reflect in the coming quarters. New capacity will also get added by the end of 2018 to help us support the increased demand. There is satisfactory progress on the pipeline projects in R&D and we should be commercializing three to four new products this year.

The raw material availability and pricing situation in China remains challenging for us and the suppliers. While, we have been able to securitize most of the raw materials either by developing alternate sources in other geographies or by developing new sources rather than concentrating in some.

Focused efforts are continuing to build new technology blocks and process capabilities and intensified efforts to build new production capacities to achieve an increased growth momentum. This phase will also see us getting aggressive in our investment plan to build up additional capabilities, looking to substantially increased pipelines .

Last year, India had set a record production in rice, corn, wheat and pulses like urad and gram. The policy of having MSP’s across crops is definitely a major plus for the farmer. The dynamics therefore for higher usage of crop protection products and other critical agri-input are very favorable. In this context, companies such as ours, which are offering high performance, brands, will stand to gain.

While on sowing acreages, many key crops are still lower than last year, the same is expected to pick up post recent showers in some of the geographies. The reservoirs in the southern India are also at a healthy level ,which shall also improve the sowing.

All in all, FY19 should be a year of changing gears for PI. With enabling agri-policies, an expected normal monsoon, strong line-up of brands for domestic market, solid product portfolio and a good order book for exports, PI is poised to register a strong Y-o-Y growth for the next several years starting FY19.

I will now request Subhash to share his perspective on the financial performance of the company in Q1 FY19.

Subhash Anand: Thank you, Mayank and a very good evening to everyone.

Before sharing my perspective on the financial performance of company in Q1 FY19, let me briefly highlight that Company has taken modified retrospective approach while adopting the new accounting standard IND AS 115 for finalization of Q1 FY 19.

Accordingly, all the opening adjustments pertaining to carried forward revenue of ~ Rs. 74 crore with corresponding impact of Rs.30 crore EBITDA, resulting in a final PAT of Rs. 21.6 crore has been routed through balance sheet and adjusted against retained earnings as on April 1st 2018. This has resulted in opening retained earning increased from Rs. 1,490.8 crore to Rs. 1,512.4 crore.

Under new accounting standards, the revenue recognitions has moved from ownership to control. Earlier, revenue was recognized based on transfer of ownership supported by terms like FOB or CIF whereas under IND AS 115, the, revenue is recognized basis, the control of products, which is decided basis various parameters eg,.contract, exclusivity, take and pay, etc.,

There were a lot of queries, on like to like comparison with last year. Since we have adopted modified approach under IND AS 115, we have not restated our last year quarterly results and hence numbers are not comparable.

Moving on to our financial performance for Q1 FY19, out total revenues stood at Rs. 605.6 crore, higher by 9.5% year-on-year, driven by 23% growth in the domestic business due to enhanced traction in the products launched in the recent past combined with active marketing strategy .Manufacturing operations for exports have also demonstrated healthy growth during the quarter under review; however, the final revenues are not comparable due to IND AS 115 transitional impact as explained before.

EBITDA came at Rs.118.1 crore, translating to EBITDA margin of 19.5%. The margin reflects our continued investment in R&D initiatives and firmness in raw material prices. Profit after tax stood lower at Rs. 81.7 crore due to impact of IND AS 115 as well as higher effective tax rate from 17.9% to 21.9%.

Coming to our balance sheet position: our balance sheet continues to remain robust backed by healthy cash flow generation. As on 30th June 2018, the available cash surplus stood at Rs. 259 crore.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: My first question is that even without this IND AS 115 adjustment, the base quarter of June 2018 versus same quarter last year, the revenue from exports have declined by 2%, if you compare the published number on YoY basis, the Rs.74 crore order that we booked in this quarter anyways was pertaining to Q4 of FY18, so the numbers that you have published on like-to-like basis if we see export, it has declined by about 2%. So, if you can explain outlook on export and the reason for this weakness?

Rajnish Sarna: Aditya, Good evening. This is Rajnish. I understand your point but please appreciate that the last year's first quarter was with several adjustments of revenue recognition standard prevailing at that time. The parameters for accounting revenue recognition has changed as compared to previous year, the revenue which could have come to this quarter was not recognized, got routed through the balance sheet adjustments and some of the revenue which would have come this quarter got again pushed forward. So, it is not comparable like-to-like the way in a simplified manner that we are trying here.

Aditya Jhawar: If you can quantify the specific first part that you mentioned that certain revenue you were not able to book in this quarter and that got pushed to the next quarter?

Subhash Anand: Aditya, the impact of opening Rs. 21.6 crore what we say is much higher number and it is actually a sizeable impact of this quarter revenue is also getting pushed to next quarter and that is why this number is not getting reflected in our Q1 numbers.

Mayank Singhal: There is no a straight answer. This would happen every quarter and revenue would be recognised as per new accounting standard i.e IND AS 115

Aditya Jhawar: Second, you mentioned certain capacity constraint and certain de-bottle-necking to help you increase the throughput. Last couple of years has been little bit kind of sluggish in export growth especially if you take a look in dollar terms, the quarterly run rate has not been very different. So, I am trying to understand that where are we seeing the capacity constraint?

Mayank Singhal: As we mentioned, in the coming quarters, we have a good order book position lined up with their delivery schedules. Demand is picking up for few products and wherever we need to de-bottle-neck the capacity now, we are investing in building a new plant to handle the required capacity.

Rajnish Sarna: Aditya, first of all, I would like to add to your earlier question. Just the response, you mentioned that the trajectory of export is kind of static or something, just to give you a perspective. Last year first quarter exports I am only talking, starting second quarter from Rs. 315 crore to third quarter Rs. 385 crore to fourth quarter Rs. 437 crore, so the revenue is ramping up and this year basis Rs.1,455 crore revenue reported last year, total revenue we have already given a guideline that we are expecting 18-20% growth. If you recall, we have also very clearly indicated in our previous call that the ramp up would majorly happen in the second half of the year. So, compared to last year, in fact, if I explain in terms of our production activities, there is more than 25% increase in manufacturing activities and operations and dispatches. That is also one factor. But yes, because of these accounting standards and the presentation, this is not clearly reflecting but the point what I am wanting to make is that there is certainly ramp up over last six to nine months and the more ramp up you will certainly see in coming quarters because from business point of view, the business is there as has been indicated earlier, the business giving assurance of more than 18- 20% growth is already in hand in terms of orders.

Aditya Jhawar: On the raw material, the issue that we are facing in China, if you can help us understand on two aspects; one is the supply security, second is on pricing. How do you see that pressure continuing in the coming quarters?

Rajnish Sarna: In terms of Chinese raw material situation, as I explained in the previous call also that in last couple of years, we have tried to a great extent to de-risk the situation by developing several alternate sources in India and also in other geographies. But still some sort of dependence for several raw materials is there for which the basic materials are available only in China, so dependence on raw material for China still remains there.

Let me also explain you the situation there. In last six to nine months, more than 500 factories have been closed down for one or the other reason, whether it was environment or whether it was safety and in next six to nine months also , regulators want to continue with this drive. So, there is certainly great amount of this uncertainty overall in the chemical industry. But what we have done in terms of securitizing our position is that we have identified these products where we have some sort of dependence, and in those situations, we have worked out our action plan to handle the situation, either we have imported enough inventory or we have already created some sort of contingency plan by having some source in other provinces rather than depending on one province, and also having developed some sort of alternatives in India. So, at least from short to mid-term point of view, we have securitized the raw material situation and at the same time continuing with our efforts to build the long-term supply outside Chinese geography.

Aditya Jhawar: The order book size for the quarter end?

Rajnish Sarna: That has remained around the same. Some supplies have happened in this quarter and to that extent we have got the new orders, so around $1.1 billion- $1.15 billion.

Moderator: Thank you. We will take the next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: I had two questions: One is on the order book side, this $1.1 or $1.2 billion of order book, what is the duration of the execution of this order book?

Rajnish Sarna: The period for execution again varies from product-to-product but it varies between 3-5 years on an average, so for some products it is three years and for some products it is five years.

Niket Shah: Second question was within your existing product profile within the CSM business, has there been any case where you have seen clients appointing some of the Chinese vendors as a co-vendor for the products, initially PI was the only ones doing it and now you have PI as well as one of the Chinese vendors doing it. So, has there been any case of that sort within the existing product profile?

Rajnish Sarna: No, In fact, this is other way round that in many products there were two sources and one of them was Chinese or there were products where Chinese was the source and PI or Indian source was not there but now they are developing Indian source.

Niket Shah: But other way has not happened, just wanted a clarification on that?

Rajnish Sarna: I do not remember of such case.

Moderator: Thank you. We will take the next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: On the domestic growth of 23% and there is a corresponding drop of 400 bps in the gross margins if I look at it on a reported basis, could you just explain a) what has driven this kind of growth of 23%, is there a specific product that have driven this kind of growth? Secondly, on the gross margin side, what has been the key issue given such a sharp drop in the gross margins? Thirdly, I wanted to check on NOMINEE GOLD, is there any price cut that you have taken for the year or any pricing pressure that you are witnessing in the market this particular year?

Mayank Singhal: The domestic brand business has grown well; 23% and some of our four- five key brands that we have taken in, including NOMINEE and OSHEEN have done well, which gave us the top line growth. If you look at NOMINEE, it is well in line with what we had expected and I can only say that we have performed better over last year. The great initiatives which our teams have taken to push the brand and build the brand awareness in the market, is showing good results, subject to the weather conditions. In terms of price cut, I would not like to answer that at this point given the competitive challenges that we have in the market. Obviously, I can say that NOMINEE is a premium product and is premiumly priced in the consumer mindset for the quality and the performance of consistency, that product gives. So, that has been very well established and yet we see the trajectory of growth coming to that product.

Subhash Anand: On gross margin front, yes, when you look into our reported number, it is 19.5% EBITDA margin, but this is actually not the true reflection of gross margin. The moment you add the opening adjustment which we just talked about of that Rs. 74 crore revenue and EBITDA margins, our EBITDA margin is actually higher then 21 % after adding and this is what the guidelines we have issued, because this year we are going to invest towards our growth levers and we would like to be in the margin range of around 21%.

Ritesh Gupta: So, when you say you are going to invest in the growth, basically it means primarily operating expenses, right, employee cost and other expenses. So, in a way you are saying that when you expect your EBITDA margins to remain flat on a full year basis, that means you are saying that your gross margins either will remain flat or would improve slight bit probably to give you to tick up some increase in operating expense. Is this the right interpretation?

Mayank Singhal: As you can see, there is a combination of many other activities the company is taking including building our R&D capabilities and investments, that are going to increase substantially. As the company is growing and we see a great visibility of growth in the next two to three years, we are investing hugely in human talent and at all levels in the organization. So, we have the well-trained armed resources and forces to take the company in the next couple of years, so we are working in that direction, that is really where we are now. In addition to this, since we will also be launching new products, in domestic as well as export market, there are certainly going to be initial development and streamlining costs, but these are going to get streamlined over a period and provide a stimulant for growth and the improved profitability. As business has delivered a double-digit growth this year, that has come through specifically the new products which have gone for aggressive promotion and field work which has added to our cost there.

Ritesh Gupta: Just reiterating the point, I asked you earlier, when you say EBITDA margins are flat, it also means that your gross margins probably will get better to give you more flexibility to invest in the initiatives that you talked about?

Mayank Singhal: Yes, you can assume that.

Ritesh Gupta: On the order book, is there any contracts which will be like say more like 8-years, 10-years contract, so is it that the maximum length of any contract that will be there in the order book would be say 5-years at best, is that the right interpretation?

Rajnish Sarna: Generally, these contracts are for 5-7-years. And regularly renewed.

Ritesh Gupta: Just in your annual report, you mentioned technology that you have bought, I think Mono Methyl Hydrazine, could you just give us a sense what this technology is going to be used for what kind of molecules you are looking to kind of expand into with this?

Mayank Singhal: This is one of the key building blocks for two, three products, for some of the intermediates and we expect commercialization by end of this year and it will also de-risk some of our existing molecules and also open the doors for newer molecules as a core block and these intermediates are both in Agchem as well as in pharma areas.

Ritesh Gupta: So, you are already using this intermediate for some of your existing products or this is entirely a new kind of area of chemistry that you are opening up with this specific technology?

Rajnish Sarna: We are using for some of our existing products. So, by this backward integration this will also securitize and de-risk our revenue for some of these large existing products and as well as open new opportunity in different areas.

Ritesh Gupta: When we got into this downturn situation over last two years, you have just commissioned two new plants in Jambusar and I think after adding those two plants, you probably have seen more like 10-11% cumulative growth over last two years and then you are looking at two new capacity additions probably by end of this year which means that you have effectively probably more adding like four plants which would be somewhat kind of, you had five plants in Panoli, one in Jambusar before these two plants came in. So, is it not that it is a substantial capacity addition that can give you substantial growth over next few years because you are saying about debottlenecking in the beginning of the call, so I could not understand why I am sure those two plants probably would be underutilized at this point in time if I read my numbers correctly, so some thoughts on capacity?

Rajnish Sarna: First of all, yes, we are seeing quite a big opportunity there and that is the reason frankly speaking today we are sitting on a bit less of capacity and that is where we are talking about this de-bottle-necking and all that. Whatever capacity today we have, we have to churn out more out of that capacity, that is one.

In addition, we are adding, as we said, a couple of plants by the end of this year. All these additional capacities what we have done in say last two years, they are running at almost 90-95% now. The other capacities that are coming up are obviously taking in account the kind of pipeline that we have and also the existing commercialized products upsize and their ramp up that we are seeing are getting impression from our customers, so in view of that, we are building this capacity. Obviously, yes, we mentioned also in our release that seeing the kind of overall global situation and the interest of the global innovator to build a more source in India, there is certainly a need for aggressive investments and this is what currently we are contemplating and working.

Ritesh Gupta: Is any of the two plants that you are adding up is dedicated or these are all multi-purpose plants?

Rajnish Sarna: All our plants are multi-purpose plants, but yes, some of them may work as dedicated if there are volumes enough to run them throughout the year. I do not see this business as a lead and a lag. It is not that you can build the plant overnight and the revenues get in a couple of years and then they ramp up because they get your occupation and realize the potential. So, where we are sitting right now is that some of them still need ramping up which we are very clearly ramping up, on the other hand we take aggressive calls and build in assets to see that the ramp up and the opportunity that we have in hand, will answer in the next couple of years.

Ritesh Gupta: The commodity prices have kind of become weaker over last few months. Typically, at least what we think is commodity prices are an indication of the revival in the global ag cycle. Any thoughts how should we look at it because the prices they were supposed to revive back from end of year but probably they have turned for worse over last one or two months probably because of the US and China tussles, etc., so if you could just give us some perspective on the global ag cycle?

Rajnish Sarna: Yes, you are right in some of these commodities, there is some sort of weaker trend but in general if I tell you the demand scenario is looking quite positive what we are seeing and what we are hearing from this global client customers, their demand cycles are reversing what we were seeing last year or before last year and what we are seeing today there is a marked change in what we are seeing in terms of overall demand scenario.

Mayank Singhal: Given the situation and the changes that are taking place in the global scenario. If you look from input stage or when you look at the commodity prices or you look at the supply side of chemicals, there is a lot of disruption in these parameters. With this disruption, the Companies are consolidating; challenges of looking at supply and quantities already exists because they are looking for better partnership to get more molecules and products out. We have been definitely focusing on working with new generation products in order to ensure to get higher EBIT margins to the bottom line and the investment that we make. PI sits very well in terms of innovative-led products there. Thus, it gives us the opportunity for our business model to be enhanced, on the other hand, the Chinese supply are becoming disruptive is also creating opportunities. The opportunities are a combination of all the three and as more players coming into the game as a key big player, they are going to completely focus more on the value-added innovative play in the commodity market while they may be weak and that we have seen the upsurge in demand but the mix of many of these issues and with a long-term perspective, not mid-term perspective.

Moderator: Thank you. We will take the next question from the line of Chetan Thakar from ASK Investment. Please go ahead.

Chetan Thakar: Two questions; One was that I understand because of Ind-AS 115, there would be some disruption in terms of reported numbers. What would still be the growth that we can expect for the CSM business for the year as a whole on a base of last year?

Rajnish Sarna: It should be 18-20% as stated before.

Chetan Thakar: The second question would be on the gross margin for the current quarter. While I understand if we were to adjust the opening that has gone straightaway to the reserves, but if you look at the revenue recognized this quarter and the gross profit that would be pertaining to this quarter there is still a contraction, so just wanted to understand what is this a function of?

Mayank Singhal: As we mentioned in our earlier question, contraction is basically based on our additional spend and certain raw material challenges that were in China.

Chetan Thakar: Is it fair to assume that there would be similar impact on the CSM business as well apart from the mix change between agri and the CSM business?

Rajnish Sarna: Yes.

Moderator: Thank you. We will take the next question from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akela: Just wanted to understand one point in footnote #7 of your result release. There is a comment about decrease in PBT for the June quarter by Rs. 75 million as opposed to the Rs. 216 million which was adjusted on April 1st. So, what is this Rs. 75 million exactly?

Subhash Anand: Basically this is the timing gap. Obviously this question should be why t Rs. 21.6 crore has not come into this quarter, in fact, why only Rs. 7.5 crore? The reason is pretty simple, it is a timing gap. Had we been able to recognize the entire revenue this quarter, then there will not be any gap in this quarter revenue. But some of the delivery also got shifted from this quarter to next quarter. So, we are seeing this timing gap.

Rajnish Sarna: Basically, the issue is that things are not comparable if we start or if we want to simply compare the last quarter and this quarter. It's not linear in nature unfortunately.

Abhijit Akela: Just to clarify this, Rs. 75 million is part of the Rs. 216 million, or is it related to the fresh orders which were dispatched during the June quarter?

Subhash Anand: Part of that. We were just comparing two different things; one is just the transition impact, second comparison, had we continued with earlier policy what would have happened, so there are two different comparisons, it is not straightaway linked to each other.

Abhijit Akela: Suppose that for the rest of this year, Q2 to Q4, the CSM revenue growth will not be comparable with the previous year, is that correct?

Subhash Anand: Yes , for this year actually if we continue comparison of last year versus this year Q-o-Q, the numbers will not be comparable because IndAS accounting is going to be there every quarter for some way or the other.

Abhijit Akela: So, a fair comparison would be available only in FY20 basically?

Subhash Anand: Yes, like-to-like if we get to see but if we are looking in totality for the full year, the revenue we are saying we should get 18-20% growth and that is what we are holding on, if we add this opening adjustment and see our growth, our full year number should be 18-20%, that is what we are maintaining, IndAS or no IndAS, that is what finally the numbers with opening retained earning adjustment we should be able to deliver.

Abhijit Akela: Just to clarify, this 18-20% includes the Rs. 74 crore which was taken into the balance sheet?

Subhash Anand: That is right. When we gave the guidance, we had taken that as this year revenue. So, if it is not in this year, then we need to keep adding that number back and compare with our guidance ..

Abhijit Akela: In terms of the margin compression that we are seeing, is it largely in the domestic business because of the raw material cost because in CSM I believe we normally operate on a pass-through model, right?

Rajnish Sarna: Yes, but in both areas even in export products as well as domestic products, some contraction is seen because of couple of reasons as we explained earlier: One is offcourse that some of these raw materials' price increase which we were not able to pass on fully. Second is that there is also development, lot of new products got commercialized in both the areas, in manufacturing area, a lot of new brands have been introduced in the domestic area and there is also initial development costs for new brands. So, that impact is also there and plus of course we continued the investment and spending on R&D.

Abhijit Akela: So, commensurate margin pressures in both businesses, right, is that a fair conclusion?

Rajnish Sarna: Yes.

Abhijit Akela: Domestic 23% revenue growth. Is it possible to tell us how much the volume growth was for this quarter?

Mayank Singhal: I do not have the volume here but you cannot put volume because again some products which have grown only very small doses and then some very high. Again, I would say volume growth has less relevance in this industry. You are talking about the acreage growth or quantity growth?

Abhijit Akela: I was just trying to isolate the pricing increase impact because I understand that there has been price inflation in the industry this year, so just trying to isolate that and look at the volumes?

Rajnish Sarna: Majorly volume growth, while some of the products where we have certainly been able to increase prices because of the market situation.

Abhijit Akela: The plants IV and V at Jambusar that are coming up this year. Could you just remind us how much we are investing in them and how much is the revenue potential from them at full utilization?

Rajnish Sarna: This is MPP-VIII and IX probably you are talking, that is the new plants that are coming up in Jambusar. As we have indicated earlier, we are expecting to close to Rs. 150 crore kind of investments in MPP-VIII and almost Rs. 100 crore kind of investments in the other plant. So, overall around Rs. 250 crore kind of investment because there are some other utilities and other areas also balancing capacities we are investing. These plants are expected to get commissioned by the end of this year- beginning next year. The revenue potential as we have always indicated in the past at maturity, we should be able to generate ~1.5x to ~ 2x of the investments, that much revenue potential is there.

Moderator: Thank you. We will take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: One is that we generally work on the revenue recognition method and even if the goods in transit then if the goods have been sold then we will be recognizing the revenue. So, why the difference under the new accounting system comes in our business model? That is one clarity I am not still clear about it, if you could just explain a little more and then how it will affect our P&L in next nine months?

Subhash Anand: In fact, our model is very clear, the new accounting standard talks about revenue recognization based on control and the moment any contract we have for exclusive product where customer has a control on that product, then revenue to be recognized based on the production because the customers have a control on that product and This is the main change that has impacted us.

Rohan Gupta: Any goods which in on transit will not come in the revenue until it is not delivered to the customer, something like that?

Rajnish Sarna: Let me simplify this and explain. Earlier what used to happen, that as per the erstwhile accounting standard, we will dispatch products, once it will get delivered to the customer, then only the revenue used to get recognized and this was precisely the reason that some of these revenues of last quarter were not got recognized. Now in the new standard, it is basis control, so if there are certain criteria like your contracts or your understanding with the customer is meeting, then the moment you produce or manufacture this product and the final product is in your inventory, this revenue gets recognized irrespective of whether you dispatched or whether you receive the delivery. This is the basic difference.

Rohan Gupta: So, under the new system it can only increase the revenue rather than reducing the revenue?

Rajnish Sarna: You are absolutely right. So, for those products which meet criterias, yes, the revenue gets recognized immediately. But if there are products which do not meet that criteria of exclusivity or long-term contract or ABC, the existing method continues, so it is not one methodology of recognizing revenue given our business model. as we have explained in past that more than 65, 70% flows in from the long-term contractflows from one year kind of contract where there are no l terms like take or pay etc and in those cases, the revenue is recognized again basis the same method of delivery at the customer side.

Rohan Gupta: Second question is on this raw material sourcing, you said that you are reducing dependency on China and looking for some alternate location. I do not understand that which are the alternate locations we are looking because apart from China and then India, is there any other market we are exploring or we are going into backward integration for manufacturing of technicals or intermediates, what is our long-term strategy there?

Rajnish Sarna: It is a very valid question. What has happened in last almost 1.5-2-years, the new geographies like Vietnam, Indonesia, Thailand, these other Asian countries have come up very well in these chemicals, in fact many of these Chinese companies have invested in these geographies to build alternatives. So, a lot of products are now being coming from Korea, lots of products are coming. Apart from this, what has happened is this Chinese situation has also helped European companies who again do well because of the uncertainty in China, some of these European companies which were not very aggressive or not doing great, have again revived. So, a lot of these products which were earlier coming from China, also are now available in Europe. And yes, then other major areas are of course in India which as we explained earlier, that is also getting benefited, a lot of these products and raw materials are moving to India and a lot of these companies have invested and restarted some of these products.

Rohan Gupta: But because it means China always has a low-cost advantage and we were procuring some materials from China, so we were also benefiting in terms of higher margin. Now, should we consider that definitely the disruption has already taken place in China, the cost of raw material will definitely be going to set at a higher than what was earlier. Whether we will able to pass on the increased cost pressure and all? We are not sure because that is getting reflected in the current margin. Should we assume that for next one and one-and-a-half or two years for a shorter period of time, the margins are likely to remain under pressure until and unless the Chinese problem or the new strategic location and all are sorted out?

Rajnish Sarna: Again, a valid question. In fact as a matter of fact, over at least one year the prices in China are also rising, in fact if you talk to anyone in this industry, the prices have dramatically changed for supply from China. So, question today frankly if you ask me, it is not the price, the question today is in the short-term is more of availability. Now talking about pricing, there is no significant gap in Chinese cost versus, for example, Indian cost or the Vietnamese cost or Thailand cost. In short-term, may be yes, because of lead lag of the implementation, but frankly speaking there is no major cost. For mid-to-long-term, we will believe that as the volumes and revenues will grow up of these small players and economy of scale will come up, we do not see a major difference as far as cost is concerned. Coming specifically to our case, example of our export in most cases it is passed on, even for the product where there is no, for example long-term contract, so whenever next year you are going to bid for that product, you are going to take the prevailing cost and if the raw material prices have doubled, your price will also double and for the customer also this is going to be the new level or new normal. So, it is not going to make a much difference in mid to long term, but yes for short term may be for one quarter, two months, three months, yes. For example, you have finalized order basis some price and I am talking here specifically for one-year type of product, not long-term where this is pass on an actual basis, but for the short term product, suppose you have decided a business on a current prevailing price and one month down, two months down, there is some change, then, yes, a bit of it we may have to share that cost, that is the only elemental risk that I see here.

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

Madhav Marda: Just wanted to understand considering our CSM business has been a bit slow in the last couple of years, obviously because of global Agchem cycle, etc., has been weaker, but given that crop prices have not recovered so far, just wanted to understand when we guide for 18-20% growth, what is that on the back of and what are the customers seeing in terms of pickup in growth in their own end markets, there has to be some trigger that they would be considering as well?

Rajnish Sarna: I think you missed the answer to one of the earlier participants, so there are several factors, it is not only the commodity prices or crop prices which is driving the kind of growth that we are talking here, there are also several other factors like current overall global situation, M&As because of that the dynamics have changed, the current Chinese chemical industry situation because of lot of uncertainty there, lot of demand, this whole thing which was earlier happening from China is moving to India, that is another reason. Apart from this, in last two years when the overall industry growth was slow, the customers or global companies were highly focusing or very much focusing on their inventory management and as a result the inventory levels have also come down. Now what is happening is they have to now refill this inventory given the current demand scenario of expectation, but even if global industry which is projecting say 2.5% to 3% kind of growth, I think a year before it was some (-8.5%) before that also it was negative and last year also it was marginally (-0.5%) and now they are predicting 2.5% to 3% kind of growth and again for certain specific geographies and products, this growth is also higher, and inventory levels are at low point.

So, therefore the procurement base and the volumes are increasing. So, these are some of the reasons apart from the commodity prices which is driving this overall growth momentum and prediction.

Madhav Marda: My second question is on the domestic business, what is our crop mix now given that the contribution of NOMINEE Gold has sort of declined over the last couple of years, just wanted to know what are our key focus crops now with the new product launches, so just to understand what can be the growth drivers for us in the next couple of years?

Rajnish Sarna: First of all NOMINEE contribution has not reduced by the way, we are doing fine in Nominee despite so many companies and generic players have come in the play, we have still been able to maintain, in fact we have been able to grow our volume, so that is not the case here. Our focus certainly remains apart from rice, obviously we are doing reasonably good in cotton, vegetables, soybean and many other segments. So, these are several other textures other than rice where we are doing well and the new product portfolio that we have been able to build over last say two to three years is also focusing in these crops, and some of these new products which are in the registration and coming out by the end of this year or later this year are focusing on some other additional crops like wheat.

Madhav Marda: On the last call, you had mentioned that you are exploring an M&A opportunity, but that was not taken up finally, but are we still sort of on the lookout for such M&A opportunities or anything which is sort of close to getting culminated by any chance?

Rajnish Sarna: We are certainly looking out for the right suitable opportunity but at this moment there is nothing at advanced stage I would say.

Moderator: Thank you. We take the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: We have seen a subdued performance of exports in North America in FY18. So, how is the performance expected in FY19 and what would be the key growth drivers for that?

Rajnish Sarna: We have commercialized couple of products, the major target is going to be America only, that is the key driver and some of the existing products also are doing very well in that market, so that will push growth in that particular continent.

Sumant Kumar: In FY18, we have seen Rs. 319 crore revenue and in FY17 we have shown around Rs. 541 crore. So, can we expect Rs. 541 crore kind of revenue in FY19?

Rajnish Sarna: The overall business growth we have already indicated and obviously some part of this growth is coming from the continent that you are talking, so yes obviously this revenue from that continent will grow.

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

Vishnu Kumar: In the last call you had given a guidance of about 18% revenue growth. Our understanding was that the fourth quarter inventory which got spilled over which is what we discussed about Rs. 70-odd crore was part of it and based on the IndAS adjustments we believe that Rs. 70 crore would no longer be there for FY19 and even after that we are maintaining the guidance between 18% to 20%. So, we believe there is an upgrade in terms of guidance for revenues, is that so?

Rajnish Sarna: First of all when we gave this guideline of 18% to 20% because we never thought that we have sold goods and it will now not appear in revenue, so that was not the understanding, we always expected and meant that whatever revenue is carried forward will appear in revenue and accounted for in revenues, that is one.

Secondly, it is not a question of achieving 18% to 20%, frankly speaking, the opportunity is much bigger than 18% to 20%, it is the question of delivering and ability to produce all and supply and again as I explained to the earlier participant, that this accounting issues will continue, but our revenue growth momentum and outlook is pretty strong, which is more than this, but our intention of giving 18% to 20% at last call was certainly including this Rs. 70 plus crore of revenue which was missed in the last quarter.

Subhash Anand: Vishnu, when we say we are holding on our 18% to 20%, we are saying including carry forward number, so we are not saying we are going do 18% to 20% on top of the Rs. 70 crore, no.

Vishnu Kumar: My question was you did mention that chunk of your new molecules are targeted towards North America and given the placement season is there mostly in the fourth quarter of the financial year, is it right to say that we would see faster growth in the second half than the second quarter?

Rajnish Sarna: That is not true. In fact, supplies to North America of some of these products is throughout the year, it is not in the fourth quarter, so depending on which product and which crop we are talking here, yes, some crops may be fourth quarter, but some of these products supplies are throughout the year. So, when I meant that we have also added few products this first quarter, which will also enhance our export as the earlier gentleman was asking. Our exports to North America, yes, that will also increase starting second quarter, but yes, the increased volumes may also be higher in the last quarter when the new capacities will also be coming up.

Mayank Singhal: Let me add further to your confusion, we are not a formulator and seller, we are also producing based on capacities and timing available at our end and the formula at the innovator end and then it goes to the markets. It is not a linear approach that that one can put to it most of the time.

Vishnu Kumar: What is your CAPEX plan for the next two years outside of FY19 -- do we have new CAPEX plans in terms of plants additions if you could just spell out a few?

Mayank Singhal: About Rs. 250 to 300 crore is what we have indicated earlier.

Vishnu Kumar: Rs. 250 crore I understand was for the fourth and fifth plant. My question is more in terms of FY20 and FY21 what will be a rough CAPEX.

Subhash Anand: We will continue to spend same amount for next couple of years.

Moderator: Thank you. We take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: My question pertains to China. So, a couple of years back how much of our sourcing was done from China and what is the current percentage of raw material which is sourced from China?

Rajnish Sarna: Two to three years back it used to be more than 35% and today it is less than 18% to 20%.

Rohit Nagraj: Due to this paucity of raw material from China, has any impact happened on our revenues that we have lost certain revenues because we could not source raw material from China?

Rajnish Sarna: In our case, it is not loss of revenue, the only impact which happened is the delay, that if some manufacturing consignment or shipment towards plant say for first quarter, they may get delayed by one month, two months or something like that, so there could be deferment, but we are not seeing any loss of revenue because of this.

Moderator: Thank you. We take the next question from line on Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Our order book has been kind of flattish for the last couple of quarters more, but at the same time we have been seeing a lot of opportunities on the macro front because of these Chinese disruptions and everything in terms of incremental contract has come through, that should ideally start to reflect back in the increased order book at some stage. Is there a way to sort of look at in terms of potential inflexion point, may be a second half of the year or may be next year by when you start seeing the material is getting reflected in your order book?

Rajnish Sarna: It is a valid question. It reflects in two ways. If you recall I think our conversation in the last call, first point it is reflecting is the kind of pipeline that we have been able to build over last one to one-and-a-half years with challenges in China have started, so what has happened that a lot of new product enquiries are flowing our way and in any case whenever there is even for existing product a new source is developed, this process of scale up takes place first, even before you get into long-term contracting and discussion and all.

So, what has happened that in last one year, the enquiries or the projects which used to be say 25% to 30% or 35% in R&D scale they have shot up to may be 75%- 80%, almost more than double, that is one. Secondly, the projects which are moving at scale up pace which is a pilot scale up and all, those numbers have also multiplied quite sharply over last one year and that gives us the visibility that what kind of production requirement that we are seeing one year down, two years down, three years down and what is the capacity available and therefore the need to build up additional capacity, so that gives us the visibility, not certainly the order book because order book once we scale up and all these happens, then we get into the negotiations and long-term agreement and right now we are into several of these negotiations and discussions to tie-up for long-term and those negotiations and tie-ups certainly are not reflecting in the order book that we are indicating today.

Nitin Agarwal: Just a suggestion, will it be possible for us just because you have mentioned there is a lot of work which goes through in the business before it gets reflected in the order book, may be some sort of metric in terms of active projects that we can indicate which are on a quarterly basis which can give us some sense on the activity level in the business?

Rajnish Sarna: Yes, that is a fair suggestion. We will try and find some metric which we can share without sharing too much, but we should be certainly sharing something which would give some comfort.

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

Levin Shah: This is Levin here. I just wanted to know what is our launch pipeline for this year into domestic market, new products that we are going to launch?

Mayank Singhal: There are about four products to be launched this year.

Levin Shah: Have you launched any of those in this quarter?

Rajnish Sarna: One product was launched this year and for the remaining we are waiting for the registration.

Levin Shah: In the CSM business, how many new molecules have we launched in the first quarter of this year?

Rajnish Sarna: We have commercialized one product and we are also expecting to commercialize two to three more products in the remaining three quarters.

Levin Shah: Last year, we had formed a tie-up with BASF, so we had launched four products last year. So, is there any plan of launching more products with BASF?

Mayank Singhal: We do tie-ups with multiple companies, because it is strategic, we have three to four products, but nothing for BASF for now.

Levin Shah: Our JV for manufacturing Bispyribac Sodium, so when is that JV actually going to be on-stream and are we putting up a separate plant for that JV?

Rajnish Sarna: That JV is already in place, this is a formulation plant which is also we have kind of built and that is also ready, we are now waiting for the registration clearance to initiate production.

Levin Shah: But we are ready with the commercial set up right?

Rajnish Sarna: Yes.

Levin Shah: So, this season itself we might get approval and we might launch the product?

Rajnish Sarna: Yes, the major season is kharif season which is already underway so we will see that season in coming month, then yes, for the coming rabi season it would be helpful.

Moderator: Thank you. We take the next question from the line of Saurabh Jain from HSBC. Please go ahead.

Saurabh Jain: I have a macro question. Just to understand, how big in size is the global agrochemicals CRAMS market and how it has been growing over the last three years and what are the growth expectations over the next 3 to 5 years?

Rajnish Sarna: Ag Chem outsourcing is quite sizeable and it has been reasonably growing, but it is not a question of overall growth because as we discussed and explained to the earlier participant, basically the manufacturing bases are shifting, and that is majorly playing the role of growth for those companies and geographies rather than that this is additional demand of the manufacturing.

Saurabh Jain: Your manufacturing or production and dispatches, they were up 25% in first quarter?

Rajnish Sarna: Our manufacturing operations, there was a ramp up. So, overall production activities if we see last quarter versus this quarter, there was significant ramp up there.

Saurabh Jain: This you are talking about only the CRAMS business, right?

Rajnish Sarna: Yes.

Moderator: Thank you. Next question is from the line of Rishabh Bothra from Sharekhan. Please go ahead.

Rishabh Bothra: Just wanted to understand a few things, clarification. You had guided for 18% to 20% revenue growth. Is it for domestic or overall company? Secondly gross margin are anticipated to enhance, however EBITDA margin will be flattish because of lot of expenditure in R&D and new product penetration.

Rajnish Sarna: 18% growth is for the Company as a whole. Expecting a similar kind of growth both in domestic as well as in our export that replies your second question, broadly.

Rishabh Bothra: The product pipeline you mentioned four products launches this year. Can you quantify what could be the size of these products overall basis in revenue terms quantum?

Rajnish Sarna: That is not easy.

Rishabh Bothra: Expansion you mentioned Rs. 250 to 300 crore, are these having some certain tax benefits which could reduce our tax outgo?

Rajnish Sarna: Yes, all our investments are coming in the SEZ only, so obviously we have some concessional tax rate there which will continue.

Rishabh Bothra: And we are having a quite substantial amount of cash on books. Any appropriate means where these could be utilized other than CAPEX in terms of special dividend or buyback, any thought on those fronts?

Rajnish Sarna: We are looking for such ideas. Kindly give us some ideas offline.

Moderator: Thank you. We take the next question from the line of Pratik Tholiya from Emkay Global. Please go ahead.

Pratik Tholiya: Just wanted the segmental revenue breakup between domestic and CSM in rupees million or rupees crore whatever you have?

Subhash Anand: Pratik, can we give you offline?

Pratik Tholiya: Okay sir, no issues.

Moderator: Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Mayank Singhal: Thank you so much for coming on and I appreciate your participation.

Rajnish Sarna: Thank you.

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

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