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PI Industries Limited

Q4 and FY'11 Results Conference Call

April 19, 2011

Moderator: Ladies and gentlemen, good day and welcome to the PI Industries Limited Annual Results Conference Call. As a remainder, for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Mayur Maniar from Citigate Dewe Rogerson. Thank you and over to you Sir

Mayur Maniar: Thank you, Melissa. Good afternoon everyone and thank you for joining us on PI's Q4 and FY'11 Earnings Conference Call. We are joined today by the members of PI senior management including Mr. Mayank Singhal Group CEO and Managing Director, Mr. Anurag Surana, Executive Director, Mr. Rajnish Sarna, Group CFO and President IT. Before we start the proceedings, I would like to mention that certain statements made on this call may be forward-looking statements and PI does not undertake to publically update them. A statement in this regard has been included in the invitation for this conference call. We will begin the call with opening remarks from Mr. Mayank Singhal on the company's operating progress and strategy after which Mr. Rajnish Sarna will share perspectives on the quarterly financial performance. The management team will take up your queries after their opening remarks. I will now hand the floor to Mr. Mayank Singhal. Over to you, Sir.

Mayank Singhal: Good evening and a warm welcome to all of you to the Q4&FY2011 earnings conference call of PI Industries.

We have just completed one of the most remarkable years in the history of PI Industries, recording strong growth in all our businesses. I am extremely delighted with our performance and we remain confident of maintaining the same pace and fervor as we move into FY12.

Coming to our Agri input business, it has achieved a robust growth of ~38% on YoY basis. Looking at the macro picture, the year 2010-2011 has seen robust food grain prices dictate the dynamics in agriculture. We had a normal monsoon across the country leading to better sowing. However the delayed departure due to unseasonal rains shifted the sales of key agro chemical products from Q3 to Q4. There is also an increase in raw material prices for the industry at large due to the higher crude prices and the same is being passed on the customers in a phased manner.

I would also like to point out that PI will find it relatively easier to maintain and grow its margins given that several brands in our portfolio are segment leaders. There is also a concerted strategy to develop strong market positions where a majority of our brands are either #1 or #2 in their respective categories. As a result there is a premium created for the brands under the PI umbrella. An apt example for the same is 'Nominee Gold' which is all set to become the leading rice herbicide in the country. Acceptance levels are high as the product is technically superior to all available alternatives.

We continue to evaluate newer molecules and are partnering with innovators for the same. The in-licensing model helps us to work on newer innovative products where we work extensively in the field promotion area, building on our knowledge base before looking to scale up to the next stage. There are 7-8 products in the pipeline with at least 2 new launches slated for launch in FY2012. With a portfolio of 'blockbuster' products in-market and a pipeline of exciting new products, PI is poised to scale up its business this year. The focus will remain on driving growth through exclusive marketing rights for very promising products by lending the best distribution and marketing support. PI's track record thus far stands testament.

Moving on to the custom synthesis segment, we have achieved a growth of ~23% on YoY basis. After showing subdued growth for H1 FY2011 we have managed to record strong volume growth in the H2 FY2011 as we successfully met the targeted planned delivery schedules of customers. As majority of the business is already tied up, the main challenge in this business is keeping up with the delivery schedules of the customers. The contracts are structured in a way that most of the risks are passed on to the customer and the only risk that remains at PI's end is execution and delivery. Our order book is in excess of US\$ 300 million with tenure of execution ranging from 2-4 years depending on different products so it is best to monitor this business on annual basis.

We are also developing a SEZ project for Custom Synthesis at Jambusar in Gujarat. A total investment of Rs. 125 crore has been earmarked for this. I would also like to reiterate that these investments are backed by firm contracts from leading innovator companies.

From inception PI has made trust-building the cornerstone of its strategy in custom synthesis and has refused to market competing products. PI is the only Custom Synthesis business in the country where more than 90% of the molecules are patented or are at early stage of commercialization. We have a well-established front-end in key markets of Europe & Japan for business development backed by international standard R&D and production capabilities. Over the last few years, this business has been growing at a rapid pace and we expect to keep up the same, given the high revenue visibility with a healthy order book position.

We have also achieved the successful closure of the sale of PI Polymer to Rhodia SA. Post this transaction we are now an entity completely focused on agri inputs and custom synthesis, both high margin and highly scalable businesses. The proceeds from the sale transaction also give us the flexibility to fund our growth plans for these businesses.

Another interesting development is our research partnership with Sony which is a solid example of our commitment towards building ourselves as R&D centric company for the future. We have best minds globally working jointly with us as exemplified by the recent visit of Dr. Negeishi, a Nobel laureate in chemistry. The areas that we are working on are highly futuristic with immense potential. It is a huge step forward given that it is the first of its kind Research Centre where Sony Corporation has decided to undertake a collaborative research project in India

under the guidance of Hokkaido University. Going forward we will continue to look out for partnerships such as these.

As we move into the next financial year we remain confident of maintaining the growth momentum given our strategic initiatives and infrastructure in terms of knowledge, skills, and production & research capabilities. I believe we have laid a firm platform from where we can launch ourselves for the next level of growth. The upward trajectory will also be reflected in the increased margins due to the sale of polymer compounding as well as the increasing share of custom synthesis business. I would now like to hand over to Mr. Rajnish Sarna to give you a brief on the financials.

Rajnish Sarna:

Thank you, Mr. Singhal. Let me once again extend a warm welcome to all of you. We are delighted with the phase of growth shown by both our agri input and custom synthesis businesses in the FY'11. Post the completion of divestment of our polymer compounding business; there will be even greater focus delivering a better performance in the years to come. I would like to commence with a brief description on financials for Q4 and FY'11. In Q4 FY'11, net revenue stood at Rs. 2.12 billion, up by 52% year-on-year. During this quarter our agri input sales grew by almost 40% and that of custom synthesis export grew by 73% year-on-year. Similarly, EBITDA was at 399 million, up 81% year-on-year and the profit before tax stood at Rs. 302.5 million, up 112 percent year-on-year. Our net profit was at Rs. 204 million, up 92.7% year-on-year. Coming to FY'11, during this year, our net revenue was at Rs. 7.2 billion, up 32.7% year-on-year. Agri input sale grew by 37.5% and custom synthesis exports grew by 22.5% during the year. Our EBITDA for FY'11 is Rs. 1.23 billion, up 41.4% and our profit before tax stood at 899 million, up 60.4% year-on-year. Our net profit grew robustly at Rs. 642 million, up 56.6% year-on-year, and consequently our basic EPS was Rs. 57.73 per share from Rs. 37.85 last year. To give you a colour on consolidated performance, our annual net revenue was Rs. 7.2 billion, up 32.8% year-on-year. EBITDA was Rs. 1.25 billion, up 41.3% year-on-year, and PAT was Rs. 651 million, up 55.4% year-on-year. Basic EPS was Rs. 58.62 compared to Rs. 38.74 last year. There is a growing opportunity in agriculture and the usage of agriculture domestically as explained by Mr. Singhal, Our custom synthesis business is slated to sharply grow in view of the order book position, and PI is placed very opportunistically to make a difference in this area given the kind of unique business model we have. I would like to thank you once again for joining us on this conference call and supporting PI stories. We will be happy to address any questions that you might have.

Moderator:

We have the first question from the line of Mittul Mehta from Lucky Securities.

Mittul Mehta:

What is the kind of sale proceed we are going to realize out of the polymer plant asset sale to Rhodia. My second question is specifically related to balance sheet. We have seen significant increase in working capital this year. The first reason is that we have grown significantly, but our debtors are up almost 70% to 80%, which is why most of the profits have been eaten by the increase in working capital. So can you through light on what is going to be the future trend in this. My third question is that our debt level has gone up by almost Rs. 100 crore from Rs. 180 crore currently to about Rs. 280 crore. So any reason why this number has shot up?

Rajnish Sarna:

As regards the divestment of the polymer business, we have closed this transaction on 11th of April. As per the terms of the closure, it takes 15 to 20 day' time for the settlement of the net working capital adjustments, etc. So only after this period, we would be able to know what would be the exact sale proceeds of this business, At this moment what I can say is that this would be around 70 Crore.

Your second question is on working capital increase vis-à-vis last year. The reason for this is that our revenue got shifted from Q3 to Q4, and as you are seeing there is a 52% growth in the revenues of the business in Q4, and as a result the w/c cycle could not be completed before the end of the year, and all the inventories which got converted in sales are lying as outstanding receivables and the inventories which were there in terms of raw material got converted in finished goods at some value add. So this is one reason for increase in working capital as on 31st of March. The other reason is that we are also projecting a substantial growth of both our core businesses, in the coming year, and as a result we have to also accordingly build our inventories because the season in domestic markets starts as early as end of May, and we have to be prepared with our inventories and positioning of products. So these are some of the reasons why you see a very huge situation of working capital at the end of the year. The third point was related to debt, now debt increase is majorly because of the sharp increase in working capital, we have funded this through short term unsecured loans and this is the precise reason why at the end of the year you see an increase in debt level.

Mittul Mehta: We also have capitalized about Rs. 70-80 crore to the gross block so where did we invest in FY'11 and going in FY'12 you said that we are going to spend about Rs. 120 crore in Gujarat. So where are we currently, how much money have we spent so far and is there going to be additional capex for Udaipur?

Rajnish Sarna: In FY'11 we have majorly invested in our existing facilities in Ankleshwar and these were investments to increase our manufacturing capacity. There were investments in some other balancing equipment, research facilities, and also utilities, which are integral part of our overall manufacturing facility. Going forward, Rs. 125 crore is not the investment plan for FY'12. What Mr. Singhal explained was that this kind of investment we are outlaying for our investment in Jambusar and this will happen in phases. So the first phase will happen say in FY'12, wherein we would end up investing may be Rs. 75 Crore to 100 Crore and the remaining investment of Rs. 25 to 50 Crore will be made in the second phase depending upon the progress of the first phase.

Mittul Mehta: And would it be fair to assume that since we are budgeting a very high growth in the coming year, the working capital cycle will look stretched or we would get back to normalized working capital requirement?

Rajnish Sarna: We will get back to normal working capital cycle may be in the next one-and-a-half to two months. As these receivables mature, we will be back to our normal working capital cycle.

Mittul Mehta: But the same could get repeated in Q3 or Q4 of FY'12 because custom synthesis is generally a longer working capital cycle business, so does it mean that we will have to continue to fund our working capital because our cash flows will not suffice to fund the working capital because we have lot of other capital expenditure programs coming on next?

Rajnish Sarna: No not really, basically in the next one-and-a-half months, this will come to normality, and this working capital is not only because of our custom synthesis business. In Q4, we have had again close to 40% growth in our domestic business. So all these receivables, which at the end of the year are getting booked in the revenue, will get encashed in the coming month or two. Apart from this we have the sale proceeds from the polymer business which will also dramatically change the debt position as of today and going forward the kind of internal accruals which we are projecting to generate, the kind of proceeds what we are getting from the sale of polymer business, we are sure throughout the year the working capital situation will remain normal.

- Mayank Singhal:** Also please note that the agricultural business is cyclical and as earlier mentioned there was a shift in the season due to delay so the peak of the work depends on where you cut it and then see the working capital. Accordingly the peak did come in the end of the year because there was a slight delay in the seasonal crops.
- Rajnish Sarna:** And I would also like you to look at the interest figure for the year. Seeing the data of working capital at a particular date is not a representative number.
- Rajnish Sarna:** The interest costs have remained lower than last year. So it is not that the situation what we are seeing on March 31 has been the regular position throughout the year.
- Mittul Mehta:** You would have done your internal assessment of the business. So what could be the targeted debtor days that you would be comfortable with?
- Rajnish Sarna:** We projected 60 to 70 debtor days for our internal management.
- Mittul Mehta:** So you plan to achieve that number?
- Rajnish Sarna:** Yes.
- Moderator:** The next question is from the line of Bhavin Shah from Dolat Capital.
- Bhavin Shah:** The cost of debt has come down, is that correct?
- Rajnish Sarna:** Marginally yes.
- Bhavin Shah:** What should be considered as a proper debt rate going forward?
- Rajnish Sarna:** Well the average debt cost has remained between 8.5% and 9%.
- Bhavin Shah:** Just coming to the tax rate, what should we look at next year going forward?
- Rajnish Sarna:** Tax rate would be the normal tax rate, we are expecting this new project to come live, may be at the fag end of the FY'12. No substantial change as far as tax rate goes in FY12. It will only come in FY'13.
- Moderator:** The next question is from the line of Basavraj Shetty from Mirae Asset.
- Basavraj Shetty:** I just wanted to understand broadly about your agri as well as the other custom synthesis business, in terms of customer geography and any other color and drivers, etc.
- Mayank Singhal:** If you want to look at agri, we are a pan-India company. We have been in the business for more than 40 to 50 years. We are present in all parts of the geography. We have all majority products, focusing on a variety of crops. We have our own dealer distributors spanning to about 2500 to 3000 dealer distributors. In terms of the custom synthesis business, it is 100% export-oriented business. Our business is basically in the developed nations, where all the innovative companies are located, which is basically Europe, Japan, and bits of America.
- Basavraj Shetty:** And this agri business is solely in India?
- Mayank Singhal:** Yes.

Basavraj Shetty: So, in terms of looking at this business, what could be the drivers and outlook for these individual businesses?

Mayank Singhal: As we have mentioned for the agri business, the key driver is, a robust pipeline of products. The other important factor is that we have set of new products, which are being launched. Looking forward, the agricultural commodity prices are all up and there is a huge demand as the country heads towards the growth path demand, for food quality is going to go up which is a driving factor at a global level. We have a very positive outlook for the agricultural business going forward. Whereas in the custom synthesis business, the global demand of this business is growing very rapidly. India is, as the country is poised, right on the top as one of the key leading countries in the world for custom synthesis, and more importantly, PI as a company is very well poised known for its credibility and its IPR and its technical capabilities to service the customer needs, hence giving us a very good outlook going forward on this business as well.

Basavraj Shetty: You are looking at launching around seven or eight products in FY'12?

Mayank Singhal: We are evaluating seven to eight products. In FY'12 there will be a couple of products which are looking to takeoff.

Basavraj Shetty: Right and mostly all of these are in-licensed. Can you give a couple of leading products and what is the size etc.?

Mayank Singhal: We are very strong both in the insecticide segment and the herbicide segment, all these products have No.1 or 2 market positions in their own segments in the industry. So PI focuses on limited number of products that will be substantial in terms of market share brands.

Moderator: The next question is from the line of Grishma Shah from Envision Capital.

Grishma Shah: Could you tell us which two or three crops contribute majorly to your revenue?

Mayank Singhal: Rice crop and the fruits and vegetable segment, are the top contributors and obviously cotton being the other one for most of the agrochemical companies.

Grishma Shah: Do rice, vegetables, etc. contribute the majority of your revenues for the agri business?

Mayank Singhal: The agri business is a seasonal business, as we have said earlier, at the end of May the season starts both for the cotton and rice, sowing, plus or minus 15 days to a month whatever it takes for the seasonal shift. Basically in India we have two seasons, the Kharif and the Rabi, and the Rabi season is the next season. These are the two major cycles in parts of India, in the east of India there are three crop cycles, which also do happen.

Rajnish Sarna: Given our product range and the crops where these products are targeted, the revenue distribution is almost even in all four quarters, may be we can say that Q2 and Q4 might have few percentile higher than the other two quarters, but generally speaking these are even.

Grishma Shah: If the monsoons are normal what kind of growth rates that you anticipate in this business, is that two x of the GDP or how do you project your requirement?

Mayank Singhal: We will continue to keep the same pace of growth that we have looked at.

- Grishma Shah:** All of these products you said are in-licensed for you, so are you supposed to pay some royalty, etc. or how does it work?
- Rajnish Sarna:** These are all purchase and sales transactions. We purchase products from our principals at certain price and we formulate or we do whatever further manufacturing activities needed to be done on these products to pack them under our brand, and then we sell them in India at our price.
- Grishma Shah:** Within the basket as you said you are also into plant nutrients, insecticides, fungicides, and herbicides, within this, which is the major contributor for you in terms of revenue?
- Rajnish Sarna:** Generally the major contributors are insecticides and herbicides, and even plant nutrients like Biovita.
- Grishma Shah:** So are these in excess of 20% to 30% kind of contribution to the revenue?
- Rajnish Sarna:** Yes, these are in excess of 50% and 30%, respectively.
- Grishma Shah:** And what is the outlook on the raw material going into the manufacturing of all these products?
- Rajnish Sarna:** The input prices are having uptrend as far as crude and derivatives are concerned. We are seeing certain percentage of increase in these prices and this is going on for the last few months, and now the industry has also started passing on this cost increase for the last couple of months.
- Grishma Shah:** Correct, but if I have to look at your negotiation terms or your raw material contract, are they yearly, monthly, quarterly how do they happen? Do you import a lot of them?
- Mayank Singhal:** If you look at some of the basic chemicals, it is driven out of the petroleum and contracting chemicals are not something which happens in this area of commodity. So we have to look for the commodity factor and the objective is as I mentioned earlier, currently we are looking to pass it in a phased manner to the end customer,
- Grishma Shah:** When I look at your cash flow on a year-end basis obviously because of your working capital and your ongoing investment in the business you have not been generating free cash. So what will be the focus of the management on that?
- Mayank Singhal:** If you look at the cash flow perspective I think the working capital cycle issue, and we had a shift in the season and year-end, if you look at from that point of view, it is high. But with respect to working capital, it is at a very well managed level and that is reflected by the interest cost, which was indirectly saying that yes we have done a better job on the working capital. So we do not see a major issue in terms of the cash flow, as we are generating sales proceeds and on the other hand we also look at a very prompt cash ignition going forward from our business.
- Grishma Shah:** Once you get the proceeds of sale of the division that you have divested, do you intend to reduce the debt or that would be used for the Capex that you are planning?
- Rajnish Sarna:** Well in short term, it would surely reduce the debts on the books, but going forward as we have Capex plan also for this year, some part of it will go in Capex as well.

- Grishma Shah:** So apart from the Rs. 125 Crore spread over the next two to three years, what would be the other Capex that you have?
- Rajnish Sarna:** No that is it. It will be the major Capex.
- Moderator:** The next question is from the line of Abhijit Akella from JM Financial.
- Abhijit Akella:** I was just wondering if there is any guidance that you are prepared to put out there for FY'12 now, having met the previous year's guidance of Rs. 65 to 70 Crore of net profit.
- Rajnish Sarna:** We are projecting ~ 40% growth in both our core businesses this year in terms of revenue and we are also expecting our EBITDA margins to improve may be by 100 – 150 basis points going into FY'12 and this is mainly because of the kind of revenue quality we are projecting, the kind of overheads management, and the sheer increase in the topline, so based on that we are expecting to achieve good set of numbers in FY'12.
- Abhijit Akella:** The longer-term kind of goal of around Rs. 1500 Crore of sales by may be in the next couple of years. So is that also we are comfortable about still aiming for?
- Rajnish Sarna:** Yes, surely.
- Mayank Singhal:** I will put it slight differently. Objective is to create value, the topline and the bottomline balancing that and if it is in alignment to our strategic objective of innovative long-term sustainable technology based inspired by science business growth is what we are looking at and I think if we are focusing in that direction I always say topline is something which will fall on its own.
- Abhijit Akella:** Just any colour you could offer with regard to the timing of your new product launches? Will the new insecticides come out by Kharif or how exactly are you planning to launch it?
- Mayank Singhal:** These are subjected to approvals, regulatory clearance, and tests and trial, so within this year is what I would say. I would not like to put a time line to it right now, but definitely within the year.
- Abhijit Akella:** And this will be a cotton-based insecticide?
- Mayank Singhal:** They are broad-based products not only for cotton but for many other crops, rice, and few others, focusing again on our strategic crop and product portfolio in the area that we are operating to ensure that we can grow it very quickly and substantially.
- Abhijit Akella:** Just wanted to get a colour on the industry growth in FY'11? So was this better than normal year for the agrochemical industries in India, just given the better than expected monsoons?
- Mayank Singhal:** The industry growth has been somewhere around 15%, I think vis- a -vis about 14% last year, so to that extent, yes, it is slightly better. But it is not a big substantial change vis-à-vis the previous year.
- Abhijit Akella:** So there was a bit of a deceleration then post following the unseasonal rainfall in the third quarter of the year. Because I think immediately after Kharif people were talking about somewhere around 20% to 25% growth so it seems like may be growth is tapered off a little bit towards the end of the year.

- Rajnish Sarna:** This is from the latest industry estimates. I mean these are around 15% to 16% growth.
- Abhijit Akella:** What are we expecting in terms of next year growth for the industry?
- Rajnish Sarna:** Well, key drivers are quite positive; the department is expecting a normal monsoon. The early estimates of crop acreages are also high and the agri produce prices are also running at an all time high. So I think these are three key indicators, which suggest that FY'12 is surely going to be a better year for the agri input industry.
- Abhijit Akella:** Just with regard to the cumulative convertible preference shares and the optionally convertible debentures, what is the status on that and is there any conversion still to be done on that account?
- Rajnish Sarna:** Yes. I think by the weekend the conversion is due, and it will be done based on our financials for this year.
- Moderator:** The next question is from the line of Nitin Goser from Religare Asset Management.
- Nitin Goser:** If you can broadly just highlight the factors what are your own products' contribution to the revenue of agrochemical space and what kind of revenue you generate from the in-licensed product.
- Mayank Singhal:** When all the products are out because of all the brands that we are selling of these products are our own brands and we have an exclusive license for the in-licensed products in the country for the last eight to ten years minimum, and so if you want to talk about in context of whether how do you differentiate between in-licensed and our brand, I would say there is not much of a difference. It is slightly different from the pharma context or the way the people look at the business there.
- Nitin Goser:** So to put it in perspective, it would be right to say that most of the brands or all the brands that we have under our portfolio are some or the other way in-licensed?
- Rajnish Sarna:** All the brands being sold by P I are it's own brands and some of the products under these brands are in-licensed.
- Nitin Goser:** In the next three to five years, any of the contracts is due for expiry or anything?
- Rajnish Sarna:** Nothing in the next five years.
- Nitin Goser:** Could you give any kind of sense on the turnover contributions from the products which have been launched in agri space during last three years or five years?
- Rajnish Sarna:** It comes to ~40%, which is coming from new products today and is expected to further grow as more new products are getting launched in coming years.
- Nitin Goser:** Going forward what gives you the confidence of achieving 35% to 40% growth in the agri space, especially when you are in-licensing the products?
- Mayank Singhal:** I would say whatever growth would come, because there are multiple issues which are there as you would have seen that we again have been able to very smartly identify the gaps that we have in our own product portfolio and we are coming up with innovative products to give us that growth. More importantly what you have to see is there is a huge change in the agricultural economy on the country. They are starting to look at this industry with seasonal dependency. It is proved here time

and time again that if seasons do not play again the industry continues to grow, clearly because there is a high pressure on increased food requirement, which is putting requirements in high acreage, more efficiency, which is being driven to give more yield and quality because again the farmer is getting the remuneration for his throughputs and if you look at the monsoon if they are looking to be normal I see a very good growth possibility somewhere around that time.

Nitin Goser: Keeping in mind the earthquake, which happened in Japan are you procuring any kind of raw material or are there any procurement gaps from that country?

Mayank Singhal: None of our businesses is impacted from that unfortunate situation taken place in Japan. Although I would say that at some point it could turn into an opportunity.

Nitin Goser: Broadly speaking what kind of margins one would be looking in agrochemical space as of now?

Rajnish Sarna: Around 18.25% EBITDA margin.

Nitin Goser: Okay, and are we going to see any kind of expansion happening in this particular category and margins?

Rajnish Sarna: Yes, of course. As the new products are coming in and the recently launched products are growing, the EBITDA margins will surely expand.

Nitin Goser: Custom synthesis space, can you give any kind of sense like, the revenue coming in from development phase, revenue coming in from pilot scale or commercial scale?

Mayank Singhal: The majority of the revenue, is coming from the commercial scale, but our business model is very unique vis-a vis anybody because we are in commercial manufacturing from day 1, the product is launched for global scale and we will be supporting the growth of the customers globally by ramping up the supplies of capacities and quantities that may be needed with time to come. In terms of today's revenues, most of it is plain start off whereas in commercial scale production you may look at it as a start up volume, but going forward it will ramp up on its own.

Rajnish Sarna: The key feature of this revenue is that most of the products are patented and early stage molecules, so the growth will come naturally as the marketing companies expand their registrations and market in different countries.

Nitin Goser: Could you provide any kind of sense on the number of projects that you are working on, and which are in the development stage and which can potentially go to the commercial scale?

Rajnish Sarna: Yes, at commercial scale, we have about 14 to 16 products and at the development stage in our pilot plant and R&D phase, we have 24-26 products at any given point.

Moderator: The next question is from the line of Rohan Gupta from Emkay Global Financial Services

Rohan Gupta: Can you provide the revenue break up of agrochemicals revenue contribution from domestic market and contract manufacturing?

Rajnish Sarna: Around 60% is from our domestic market, agri inputs business and the remaining is our custom synthesis.

- Rohan Gupta:** So that is 40%. And out of the 60% revenue contribution from domestic market, all is through your own branded sale; you basically do not sell in bulk to any other player?
- Rajnish Sarna:** Yes most of it is branded sale.
- Rohan Gupta:** When we are talking about almost 18% margin in this agrochemical business, your overall margins are also close to 18%, so we very well can expect that your contract manufacturing margins are also similar right?
- Rajnish Sarna:** Yes, what you are seeing for FY'11 is the consolidated margins including polymer business also, which has very low EBITDA margin.
- Rohan Gupta:** So generally your contract manufacturing business command higher margins than your own agrochemical market?
- Rajnish Sarna:** Yes.
- Rohan Gupta:** That will be in the range of 22% to 23% something?
- Rajnish Sarna:** Yes around 21% to 22%.
- Rohan Gupta:** And going forward, we are expecting that this ratio between the 60% domestic and 40% contract manufacturing is going to change or at least in FY'12 probably we are seeing higher growth in domestic market for agrochemicals?
- Rajnish Sarna:** No, it would remain almost the same.
- Rohan Gupta:** So is this 100 to 150 basis point margin expansion which we are expecting in current year, will be driven by domestic market or contract manufacturing?
- Rajnish Sarna:** Both the businesses and the reason is that number one, the topline will grow and the fixed costs will get leveraged. Secondly as explained, the revenue quality is also changing both, in our agri-input business by the growth of recently launched new products and the new products which are getting launched this year, same way in our custom synthesis business because of some of the products which were commercialized in FY'11 and which are planned to be commercialized in FY'12 which will also augment profitability.
- Rohan Gupta:** So this margin expansion that you are talking about is not the industry-wide phenomenon, it is basically company-specific thing, it is not like that you are expecting that industry will get some higher pricing power and they will increase the prices across the board, it is not driven by that?
- Rajnish Sarna:** Yes.
- Rohan Gupta:** So more or less if excluding PI if we say and general industry we should not expect any kind of margin expansion happening in FY'12 or FY'13 because of increase in MSPs or higher demand or monsoon-driven factor, so we should not expect some kind of margin expansion across the industry?
- Rajnish Sarna:** There might be some upside because of these reasons, but that we do not account for in our projection, When you have a very good monsoon and the demands exceed expectations / supply, yes surely this will have some bearing on the pricing or the margin.

- Rohan Gupta:** So far, you must have been in accumulation phase for many of your raw materials, we have seen that crude-linked products have gone up significantly, so what kind of raw material pressure you have seen so far now?
- Rajnish Sarna:** This is going on for the last, I would say, 3 to 4 months and for the last month or so the companies have already started passing on this cost increase to the market, so that is something which is done across the board, across the industry.
- Rohan Gupta:** Can you please color it with some numbers, like how much raw material price increased in terms of percentage you would have seen, 5%, 10% something like that?
- Rajnish Sarna:** I cannot generalize this for all the raw material, because this is impacting only certain raw material, as earlier explained that some of these chemicals are linked with the petroleum or its derivative, so only for those raw materials there is a price impact or cost impact, not for all the raw materials across the board.
- Rohan Gupta:** Because I was coming on your guidance of 35% to 40% growth in revenue, you must have factored some volume growth across the industry, some pricing growth and some steps taken especially by the company, so if you can just break this 35% to 40% what is your assumption in terms of volume growth across the industry and what kind of price increase you are expecting?
- Mayank Singhal:** The way I would like to answer that if we start to look at a growth, it is subjected to the external market conditions than in the organization in the year forward makes that as the objective and optimizes the option what is in front of it in order to ensure they deliver, but one cannot specifically say that this is the way it will be, specifically in agrochemical business which is very dynamic and reactive to many external factors.
- Rohan Gupta:** I do agree with you but when you project something you might have taken some assumptions, so I was working more on what is the industry growth which you are looking in terms of volume, not including pricing growth?
- Rajnish Sarna:** In any case if you see our FY'11 performance, our growth is to the tune of 37% to 38% as against the industry growth of 14% to 15%, so it is not that we are growing at the pace the industry is growing. Now answering your question in terms of what kind of growth is coming from volume and how much is coming from price, I would say roughly around 30% to 32% growth will come from volume and maybe 4% to 5% growth will come from price if I look at a consolidated level.
- Rohan Gupta:** Your order book size of \$300 million which is going to be executed over the next four years, how much was added during the year, FY'11?
- Rajnish Sarna:** We have added close to I think \$80 million to \$90 million.
- Moderator:** The next question is from the line of Amol Kotak from ASK Investment Managers
- Amol Kotak:** Your annual report suggested Rs. 200 Crore CapEx while your guidance on the call is Rs. 125 Crore, so I am not able to relate to it, can you please help me?
- Rajnish Sarna:** Yes, because we have already incurred CapEx of Rs. 75 to 80 Crore in FY'11.
- Amol Kotak:** So that is the difference, but basically there you suggested Rs. 200 Crore for the new facility?

- Rajnish Sarna:** Yes, because of some reasons we had shifted one plant in our existing site.
- Moderator:** The next question is from the line of Nirag Shah from Exemplar Investment
- Nirag Shah:** Do we have geographical breakup as well as the tenure of execution breakup of the present order book?
- Rajnish Sarna:** Yes, around 65% to 70% is from Europe, 20% from Japan, and rest from the other continents.
- Nirag Shah:** So the 20% which is from Japan, are we facing any headwinds regarding the delivery offtake delay because of the earthquake that has happened?
- Rajnish Sarna:** Not, so far, we have not faced any issue on that.
- Nirag Shah:** Regarding your custom synthesis business capacities that you are adding this year, what percentage will be added to the existing capacities?
- Mayank Singhal:** Let me put it in unit capacities, this is slightly different because it is volume because it is a multi-product plant, so it is not defined capacity in the product range. With different reaction capabilities and addition value, capacity is not a linear issue in this business.
- Nirag Shah:** Then the Rs. 125 Crore CapEx that you are planning, how much revenue generation potential it has?
- Rajnish Sarna:** It could be about Rs. 325 Crore to Rs. 350 Crore from this kind of an investment.
- Nirag Shah:** So with the present order book that we have of \$300 million, as I see you have completely tied up the FY'13 capacities, so are we looking for 100% jump in CSM revenues next year?
- Rajnish Sarna:** Can you please repeat your question?
- Nirag Shah:** You have \$300 million order book, if I subtract around 320 Crore revenue that you are expecting this year out of that, then also you have completely tied up your FY'13 capacities, the addition you are planning this year, it means you will be having 100% jump in CSM revenue next year, that is FY'13 I am talking about, not FY'12?
- Rajnish Sarna:** No, this \$300 million order book position is not for delivery over next one or two financial years.
- Nirag Shah:** That I understand, but it is around 1350 Crore, the \$300 million order book that you have, and 1000 Crore or 1100 Crore will be remaining, new orders are flowing in as you have said, so next year because as you have said it is executable in three years' time, by 2014 you are planning to execute the entire order book, right?
- Rajnish Sarna:** Not really, this order book position is for different product and some products this is for two years and for some products this is for three years and for some products this is for four years also.
- Nirag Shah:** So, the average order book execution tenure is?
- Rajnish Sarna:** That is three to four years.

- Nirag Shah:** Regarding that seed business evaluation that was there last time you spoke about, what is the update on that front, referring to seed business, which was under evaluation that you have mentioned in the last concall?
- Rajnish Sarna:** We have yet not taken a final view on this, we are still evaluating certain options.
- Nirag Shah:** Any inorganic plans that we can see this year?
- Rajnish Sarna:** We are working on some of these options, so let us see.
- Nirag Shah:** But your balance sheet is already burdened with debt, so how will you generate funds for the acquisition?
- Rajnish Sarna:** Frankly speaking, it is not burdened if you are just seeing one day financials, that is of 31st March, yes, but as I explained earlier that this situation is getting normalized by the by collection of our receivables and also on top of it the sale proceeds which we are getting from our polymer business, so in a way this is not burdened, I would not say this is highly leveraged balance sheet.
- Nirag Shah:** Regarding the crude price impact on the margins you are telling that in CSM business it has the provision to pass on the entire cost to the customers, but is it not likely because of the cost pressures involved, the delivery off-take might get delayed which can impact the revenues of the company of CSM business?
- Rajnish Sarna:** Well, not really ultimately all this is decided by the demand scenario, so if demand scenario is positive, the delivery off-takes won't get impacted.
- Nirag Shah:** Not, I am not talking about agri-input segment, I am talking about custom synthesis business, regarding custom synthesis since it is completely passable to the end client, because of the cost pressures involved, and because of the crude spike will they not postpone the delivery off-take?
- Rajnish Sarna:** Not really, if you see the kind of products we are dealing in, this is not at all a issue. These are all early stage molecules, these are patented molecules and the customer also does not have the kind of competition as he sees in case of generic products. So if there is a cost increase he is easily able to pass on these costs to the market.
- Nirag Shah:** The clients that are based in Japan in CSM business, they are not affected because of the earthquake?
- Rajnish Sarna:** No, not at all.
- Moderator:** The next question is from the line of Amit Vora from PCS Securities Ltd.
- Amit Vora:** What has been the net addition in your order book in this quarter?
- Rajnish Sarna:** It is I think \$50 million.
- Amit Vora:** That was like \$250 million towards at the end of Q3, so there would have been some execution during this quarter, so \$50 million is like the gross, what is the net addition?
- Rajnish Sarna:** This is the net addition only.

- Amit Vora:** The molecules that you are launching this year, the probability of that you are going to launch this year, what is the market size of two molecules, what is the size of that?
- Amit Vora:** Commercial market of that?
- Rajnish Sarna:** Are you talking about the custom synthesis molecules or agri-input molecules?
- Amit Vora:** Agri input.
- Rajnish Sarna:** As I explained these are broad-spectrum insecticides, so there is a good potential.
- Mayank Singhal:** They are very large potential molecules. I would not like to disclose the names at this point.
- Moderator:** The next question is from the line of Manish Bhandari from Vallum Capital.
- Manish Bhandari:** My question is as you mentioned like most of your molecules what you sell in India is In-license molecules, so I wanted to know what is the patented life of those molecules, maybe in a major average or when most of the molecules would convert into generic?
- Mayank Singhal:** Well the kind of molecule product that we are looking and the new ones coming today in the market, easily they have life of not less than 15 to 20 years, in the new generations globally if you study the business even if you look at India we know the molecules as good as 25 to 30 years old, which are still doing very well and being in the top of the segment.
- Manish Bhandari:** Do you mean to say molecule like Nominee Gold would have a shelf life of another 15 to 20 years?
- Mayank Singhal:** Not in terms of shelf life, the usage life.
- Manish Bhandari:** I mean to say that how long you can enjoy the patent before the generic is launched?
- Mayank Singhal:** The market will be there for 15 to 20 years.
- Manish Bhandari:** All right what kind of arrangement you would have with your counterpart once those molecules become generic, can you as a PI launch your own brand on those molecules?
- Mayank Singhal:** These are our own brands in any case.
- Manish Bhandari:** Sir would you own the brand?
- Mayank Singhal:** All the brands are owned by PI, they are PI brand.
- Manish Bhandari:** My next question is what kind of market contraction in the pesticide business would happen because of the launch of Roundup Ready by Monsanto cotton and usually cotton is a significant use of pesticide, so what kind of contraction in the price of market would happen and how it would impact your business?
- Mayank Singhal:** Roundup Ready is not a pesticide, as per our understanding it is a seed quality.

- Manish Bhandari:** Does it impact you, the Roundup Ready launch does not impact you?
- Mayank Singhal:** No, we are focusing something which will not be impacted.
- Manish Bhandari:** You have a significant sales and distribution expenses, I am not too sure what is the number you ended up for FY'11, but significant on FY'10 balance sheet, so how this number would come down over a period of time or this number was preloaded significantly because you were in investment phase. If I see that number vis-à-vis the competition is significantly higher. At 15% of sales your selling and distribution expenses in FY'10 balance sheet, would that come down significantly going forward or this would remain at this level?
- Rajnish Sarna:** This expense will not come down because we are in the process of introducing new molecules. I mean if you see our business model, we introduce new molecules and then we build brand, so we will have to spend a lot of money in terms of market development, product development, and this will continue, but what this will give us is the matching revenue and far superior revenue quality.
- Manish Bhandari:** What I was interested in knowing was that whether this cost as %age to sale would come down, not on absolute term?
- Rajnish Sarna:** Of course, this will come down in %age terms.
- Moderator:** The next question is from the line of Deepak Rohra from Quest Investment Advisors
- Deepak Rohra:** I just want to understand, you sold of this polymer business, let us look at what could have contributed to your topline may be Rs. 65 to 70 Crore first and then on the Rs. 65 to 70 Crore if you make some adjustments or you calculate your margins and work backwards, or let us start working forward for 2012 you should have your EBITDA improvement just because of having knocked off your polymer business, why would you really say that your margin should improve only by 100 basis points or 150 basis points. The polymer business selling itself should give you margin improvement of anywhere between 125-150 basis points, have I got my arithmetic correct there?
- Rajnish Sarna:** Yes, your arithmetic is absolutely correct, but we always remain conservative in terms of giving forward looking statements.
- Deepak Rohra:** So you could actually expect a far significant margin improvement. And one last thing, in terms of broad breakup of your revenues, if I look at it so far you had three lines of businesses, one is your agri-input, the second is your custom synthesis, and the third is your polymers. Now on the polymer front if you look at your turnover that is being on a consolidated basis, which is let us say Rs. 720 Crore. If I take polymers as about Rs. 70 odd Crore, roughly your Rs. 650 coming from agri and custom synthesis, and I would reckon that both of them would be equal contributors, I do not know whether you disclose those numbers separately or not, but I have not come across those, but I would reckon they would be equal contributors?
- Rajnish Sarna:** Yes, more or less as I mentioned 60-40.
- Deepak Rohra:** Okay, they will be 60-40 fair enough. Custom synthesis to my mind should actually enjoy a far superior margin?
- Rajnish Sarna:** Not far superior, but yes better margins.

- Deepak Rohra:** Somewhere it just does not add up the fact that you have 40% coming from custom synthesis, you are spending a lot of money in custom synthesis, and yet one year and two years down the road you are expecting a very, very marginal improvement in your EBITDA margin, which should anyway come because the polymer business is no longer there. Why are we spending some Rs. 200 odd Crore to get into custom synthesis unless you are looking at an overall EBITDA of 22, 23, 25%?
- Mayank Singhal:** But I think what you have to look at is, the custom synthesis is a slightly different track. Our kind of business model, we are investing for the future because we have the new molecule pipelines, we have to invest and the revenues have a longer gestation period. The issue is to build a plant of certain capacity and size that you can ramp up and look at newer opportunities across, vis-à-vis getting into custom synthesis business where I can say 500 tonnes, 100% plant capacity sold and running. On the other hand, there is a give and take, which you should also look at in the business, a long-term committed smart value-added technology based platform products vis-à-vis opportunistic high-margin products. So looking at that, in the custom synthesis business in the future those kind of EBITDA margins are possible, but we are right now in a very aggressive growth phase and investment phase to make sure that we get right to the top of the line.
- Deepak Rohra:** I have one query on your conversion, how do you determine the pricing, if I understood correctly you talked about the fact that conversion will be based on current year's performance, does it mean the pricing on conversion has not been determined as yet, it is not part of the terms?
- Rajnish Sarna:** It is the part of the terms, but surely we cannot discuss this in public domain at this point and as this process ends this will be made public.
- Deepak Rohra:** Fair enough, so basically what was there is part of your term sheet. You had said that based on the FY'11 performance the conversion would be based on a certain valuation.
- Moderator:** The next question is from the line of Mittul Mehta from Lucky Securities.
- Mittul Mehta:** The question would be on your planned CapEx and the CapEx which we had already incurred. This entire Rs. 200 Crore CapEx that we will be doing, Rs.70 crore we have already done, is for custom synthesis or also for the agri-input?
- Rajnish Sarna:** Well, the major portion of this is for custom synthesis and some part of it is for common utilities, environment management, and all those issues.
- Mittul Mehta:** Could you just give us some color of your custom synthesis because you have been directly interacting with your customers and how big this business could get over the next three to four years in terms of the initial success that we have achieved on these patented molecules, so in terms of the broad size how big this business could get over three to five years?
- Anurag Sarna:** The most important thing in this business is getting credibility with your customers and when we are talking of newly patented molecules they have an option of producing it either themselves or outsourcing it, and once they believe in their partners and they get into the outsourcing models, the size, the business potential can be very large. Usually these companies do not have a limit on percentage in absolute terms on kind of business they outsource. It also depends largely on the kind of pipelines these companies have on new molecules. Coming specifically to the business potential it has for PI, I would say, Rajnish talked of an order book position of about \$300 million and this business in the next three four years can easily reach in excess of Rs. 1,000 or 1,200 crore.

- Mitul Mehta:** From whatever we have understood is that some of the potential customers whom we are supplying have alternative sourcing arrangement also, because you know they would not want to depend on a single source, they would want to spread their risks, so does it mean that beyond a point the volumes of some of these molecules would kind of get capped and so the growth would kind of start decelerating beyond a point?
- Anurag Sarna:** Actually for all new products as a prudent strategy nobody keeps a single source, but usually for new products, for IP protection, and for other confidentiality issues they also do not keep more than two sources, at maximum. If it is a huge global blockbuster kind of thing then they may have three sources, but usually not more than two sources.
- Mayank Singhal:** I think the other question which I would like to add here is the capacity planning is done in alignment with the customer and definitely no molecules will always continue to grow well with the new products in the pipeline, which will continue to grow.
- Mittul Mehta:** In terms of the complete audit of these plants, is it done by the customer or there is a special body that does the complete audit?
- Mayank Singhal:** The large companies have independent people who report to the Board, and the audit of these process are done, and that comes with a very high cost and timeline, most from all the environment, safety health process, procedures, people, IP, etc.
- Moderator:** The next question is from the line of Grishma Shah from Envision Capital.
- Grishma Shah:** I just wanted to know what is the outlook on the cotton prices from the suppliers, any input that you could provide us?
- Mayank Singhal:** Outlook I would only say that knowing a part of the cotton prices because we were somewhere related to the business, clearly the current cotton prices are all time high and expected to remain high because shortfall in cotton production globally.
- Moderator:** As we have no further questions, I would like to hand the floor back to Mr. Mayank Singhal for closing comments.
- Mayank Singhal:** I would now like to earnestly thank all of you for making your time for this call and if you have any further questions please feel free to contact us or CDR India either by phone or by mail, which we have mentioned with these results and thank you once again for being there.
- Moderator:** Thank you gentleman of the management. Ladies and gentlemen on behalf of PI Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
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