PI Industries Ltd

PI Industries Ltd.

Conference Call Transcript

October 27, 2017

Moderator Good day ladies and gentlemen and a very warm welcome to the Q2 & H1 FY18 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you sir.

Nishid Solanki Thank you. Good evening everyone and welcome to PI Industries Q2 & H1 FY18 earnings conference call. Today we have with us 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. As always, we will begin the call with opening remarks from the management following which we will open the forum for question and answer.

Before we begin, I would like to highlight that certain statements made in today's conference call maybe forward looking in nature and a disclaimer to this effect has been included in the results release sent to you earlier. The company does not undertake to update them publically. I would now request Mr. Mayank Singhal to share his thoughts on the performance and discuss the opportunities that lie ahead. Thank you and over to you sir.

Mayank Singhal Thank you. It gives me great pleasure to be addressing you once again where I will direct my thoughts on the strategic and operating developments in the reporting period. At the outset, I wish to welcome our new CFO, Mr. Subhash Anand into the PI family.

Let me begin by stating that the momentum of performance is improving. On the domestic front we are seeing healthy traction from a strong mix of branded products. We expect Rabi to be supportive to growth as the rainfall has been favourable ahead of the season. As shared earlier, we are looking at an improvement in the exports as per our business plan, as we factor in the enhancement in global sentiment in agchem during the latter half of the fiscal year.

As a Company we have been focused on driving newer technologies with a view to deepen engagement with existing innovator relationships and to widen the scope of our offering beyond them. The consistent investment that we are making in R&D will help us deliver integrated, innovative and long-term solutions, which will take PI into its next level of growth.

PI Industries Ltd

Our state-of-the-art facility for R&D, which I had mentioned during our previous interaction, is rated amongst the best of its kind in the world. We have deployed best-in-class quality systems and analytical infrastructure here with a view to evolve the next-generation of chemistries while at the same time partnering a newer set of customers. Given our strong orientation in agrochemicals, it is our primary objective to drive initiatives to develop new product lines in both agrochemicals and in adjacent chemistries including electronic chemicals, imaging chemicals and other specialty products. I am glad to note that significant progress is being made on this front.

During H1, PI has launched 4 new products domestically, i.e. Header & Fender for Rice, Visma with focus on Grapes, Chilli and Cucurbits and Humesol for all crops. This includes products introduced through our agreement with BASF. Our strategy for bringing out couple of more products under this partnership is on track. Given a track record of introducing high-potential products regularly we have an in pace an attractive portfolio of brands that offer substantial growth opportunities. The partnerships we have forged with agchem leaders such as Mitsui and Kumiai are expected to augment further our basket of brands.

Our order book positon is holding strong and we continue to receive additional interest from innovators for new supplies. The commercialization of molecules is progressing as per pipelines resulting in effective utilization of capacities during H2.

The agenda for PI going forward will be scripted by intense focus on technology and innovation led growth. We are preparing PI for a tomorrow where our relationships with the innovator community will be defined by the strength of our technological advantages. This is an assured path to realize the next level of partnerships with innovators in the industry. Prospects beyond FY18 appear encouraging on the back of improved visibility in global markets and complemented by an expansion in our offering as we realize the potential of our investments.

I will now like to call up on Mr. Rajnish Sarna to take forward the discussion. Thank you. Rajnish, over to you.

Rajnish Sarna Thank you, Mayank and good evening everyone. I will now quickly take you through the financial performance of the company for this quarter and the half year ended September 2017.

In the second quarter of the current fiscal, our total revenues increased by 3% to Rs. 561 crore and this is supported by close to 13% growth in our domestic revenues. EBITDA stood at close to Rs. 122 crore with overall margins of 21.7%. The EBITDA margins were marginally lower compared to previous year and that is mainly due to change in product mix and also some operating leverage impact due to softness in our exports.

Profit after tax came in at close to Rs. 80 crore and that is primarily impacted by one time tax adjustment as the effective tax rate was higher in the second quarter. The effective tax rate for quarter two was at 29% against 18% in quarter one and we are expecting the normal effective tax rate, annual tax rate to be close to 21%-22%.

In H1 FY2018, our total revenue stood at Rs. 1,114 crore which is lower by close to 6% year-on-year basis and this is mainly due to expected softness in our exports and also combined with some uneven rainfall situation in the Kharif season, of course the GST changeover impact also factored in. EBITDA stood at Rs. 253

crore with EBITDA margin at 22.7% and profit came in at Rs. 180 crore for the first half FY2018.

I am happy to state that the Board of Directors of the company have approved an interim dividend of 150% that is Rs. 1.50 per equity share of face value of Rs. 1 each and this is in line with our objective of rewarding shareholder while ensuring that sufficient funds are retained for the growth of the company.

Coming to our balance sheet position the net debt to equity position stood at 0.04 during this period and the company continued to be cash positive by adding free cash flows with total available cash surplus as at the end of quarter two to Rs. 275 crore.

With that, I would now request the moderator to open the forum for question and answer. Thank you.

Moderator Thank you very much**.** Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Mohit Pandey from Citi Group. Please go ahead.

Mohit Pandey Sir, my first question is on exports, is it possible to share the exact, absolute amount of export for 2Q this year?

Rajnish Sarna Yes. Our exports for the first half are Rs. 602 crore as against Rs. 656 crore last year in the first half.

Mohit Pandey Okay sir. The last year performance there was a significant upfronting in the first half and so what kind of growth looks reasonable for the second half this year?

Rajnish Sarna For example last year, just for the information of everyone, last year our revenue growth in exports in first half was close to 35% and so therefore yes, you are absolutely right, that this last year was upfronting and this year the growth would be back-ended in the latter half of the second half and that is how this whole supply schedules are planned from our global customers.

Mohit Pandey Sure. So sir this 15%-20% kind of growth in second half looks reasonable at this point of time?

Rajnish Sarna Obviously, we have planned close to 10% kind of growth on annual basis in exports, which means that we have more than 20% growth projected in the second half. We have already kind of been able to procure orders, all the businesses already tied up. So it is just now the question of execution and delivery and that is it.

Mayank Singhal Depending on the shipment accordingly, time management.

Mohit Pandey Sure. Sir secondly, I wanted to understand the product mix that you actually refer to which impacted EBITDA margins, if you could elaborate on the product mix part a bit?

Mayank Singhal Well, there are lots of products which are different. There are products which come from Agri and from exports. So certain products upfront are having a different contribution compared to some other products. I mean there is a bunch of I think 30-40 products to this overall contribution comes from.

Mohit Pandey Should we read this as more of a quarterly phenomenon or…

Rajnish Sarna You can consider that particularly in domestic revenues this is quarterly phenomena depending on the agro climatic conditions, which crops and which products are moving. That is one factor. The other factor is that even in exports area, depending on which products are moving in which quarter, decides the overall product mix for that business and overall situation. So all this put together, the variability element is there in terms of product mix for the quarter.

Mohit Pandey Right. And for the full year we are expecting similar margins as last year?

Rajnish Sarna Yes, broadly yes.

Moderator Thank you. We will take the next question from the line of Abhijeet Akela from India Infoline. Please go ahead.

Abhijeet Akela Just to clarify, so the export revenue breakdown you said Rs. 602 crore for the first half, the number I had for 1Q was about Rs. 300 crore. So does that imply about Rs. 302 crore for the second quarter?

Rajnish Sarna Yes.

Abhijeet Akela Okay. And domestic would have been about Rs. 259 crore in that case.

Rajnish Sarna Yes.

Abhijeet Akela And second just wanted to understand, this year's domestic revenue is probably being reported net of the GST, right?

Rajnish Sarna Yes. If you see the results, the reporting format, this year is net of excise but previous years are including excise and excise is coming in expenses. So in order to make an apple-to-apple comparison, in our release it is clearly mentioned that if we take it apple to apple basis what is the kind of growth or de-growth there, you know, that gives a better picture.

Abhijeet Akela So that is 13% growth. And just on the margins, then if we try to compare the margins on a Y-o-Y basis, on an apple to apple basis again, then what I do is for 2Q last year if I subtract out the excise duty from the revenue and then look at the margins, it would seem like the margins have fallen on that basis by about 150 basis points or approximately. So which segment would that have been, is it in the export side or domestic side.

Rajnish Sarna Both of it, as I explained earlier because on domestic side also some product mix and on the export side because the overall values or revenues were lower, so obviously the leveraging aspect, that impact was there. And that reflected in whatever this 125 or 150 basis points reduction that we are seeing.

Abhijeet Akela Right and when you say that for the full year you are hoping to sort of maintain margin stable, that would be not considering the change in the accounting, right, now with GST, I mean on the old basis you are planning to hold it stable, but on the new basis there will be some difference accordingly?

Rajnish Sarna Yes and we are considering that on the new basis only that we will be able to maintain because in the second half with this hopefully the business that we are expecting to deliver, the operating leverage benefit should be there because we will be doing better business at a better rate on a quarterly and a 6-monthly basis. So that should also reflect in the month to some extent.

Abhijeet Akela So sir just to clarify, so last year we did 23.1% EBITDA margin on the basis that was reported last year. So this year we can assume that we are targeting around 23% on whatever the new basis is. Is that correct?

Rajnish Sarna Yes.

Abhijeet Akela Okay. Understood. And lastly just on the new products, both on the domestic side and the export side, if you could give a little bit more color, I know you mentioned 3 names, but if you could give us a bit more details about the technical and how do you see the opportunity, both on the domestic side as well as the export side? Thank you.

Mayank Singhal But these are two new generation products in fungicide which are combinations where we are partner of BASF and these are the three products which we are taking up for BASF which have launched in the rice segment and in the launch share and the other is focusing on the grain segment. These are the new generation fungicides.

Rajnish Sarna And on export side also basically three products that at a very small scale we have started, but the major new projects contributing to revenue would be coming in the second half. So we are commercializing 3 major projects in the second half.

Mayank Singhal That will be the kick off state by next year, till the year they would be…

Rajnish Sarna Yes. Their major revenues uptick will happen in next year and next to next year.

Abhijeet Akela Right. And the total number of products we have currently under commercialization in custom synthesis is about 20 odd?

Rajnish Sarna Yes. It should be around 20 products, yes.

Abhijeet Akela Just on your foray into the new segments, you have been talking about pharma and specialty chemicals, electronics, imaging, by when do you think we could realistically expect some further announcements on that front. Thanks a lot.

Rajnish Sarna Yes. So we have been working in a much focused manner in both these areas. Hopefully, before the end of this year we should be in a position to kind of announce something.

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

Ritesh Gupta Hi sir, this is Ritesh from Ambit. This is two questions from my side. What is your current order book in CSM right now?

Rajnish Sarna That is close to $1 billion.

Ritesh Gupta This could be the same despite you are saying that you have launched couple of new products so despite that this remains pretty much at the same levels?

Rajnish Sarna Yes, because these launches were very small, you can imagine in this model. But as you kind of take those to the next level, first, second or third year then the volumes go up.

Ritesh Gupta Okay. And sir the next question I had in my mind is that, on the CSM side Mr. Mayank mentioned that FY19 is likely to be much better year than FY18. Could you just give us a sense because, on crop prices side we don't see much of movement and if you see the numbers been reported by BASF and Bayer etc., they have been still very weak in this quarter as well. So could you just give us a sense that what could drive growth given that your clients might not grow that well even next year. So if you could just share some color on that?

Rajnish Sarna So what we are saying is basis 3-4 key factors. One factor is that the global inventory levels are falling I will not say across all the products but in many products in which we deal. The global inventories are falling below certain threshold levels which means that Bayer offtakes are on now, at least they have clear visibility of offtake that okay, I want to now start picking stocks from quarter one, quarter two or quarter three of 18 and so on and so forth. So that visibility is substantially higher compared to what it was maybe 6 months back. So that is one change and improvement that is happening. Second thing is that you know over last 2 to 3 quarters, we have been able to get very interesting projects and enquiries and compared to 6 months back or 9 months back if we see today are in R&D pipeline. It is much improved and significantly increased R&D pipeline. So that also is also one factor that gives us a better visibility of next 2 to 3 years. That is another factor. And the third factor is the current standing situation which is becoming increasingly difficult and uncertain for many of these products in AI that they are currently giving. Now that also in a way gives lot of opportunity for company like PI to kind of enhance our customer base, enhance our product portfolio and been able to offer the nice proportions to have global customers. We have also been able to get much more new enquiries and businesses.

Mayank Singhal I will further add to that global consolidation, the industry is making an opportunity in this segment and we do see the higher rate of enquiries flowing in. So we do see certain positivity building up over the next couple of years in a large scale.

Rajnish Sarna So all these 3-4 sectors kind of give us the confidence that FY19-20 should be better than FY18.

Ritesh Gupta And when you say better you mean to say 10% going to 15% or you mean to say 10% can go to 20% or similar to what you guys were doing before in FY16?

Rajnish Sarna Yes. So I mean, given our pipeline, given the kind of indications that we are getting for offtakes of our existing products, yes it should go to 15%, if all these things fall in place, yes.

Ritesh Gupta And sir last question is on the product concentration side. Few quarters back I think you guys have said that, I mean could you just give us a sense on what kind of product concentration you might have on the top 2, top 3 product side?

Mayank Singhal Product concentration is a cyclical issue. I think in this business, we start with certain products in the scale ups, we started the first smaller scale and we take large shares. The concentration is a floating concentration.

Rajnish Sarna Our top 5 products last year versus top 5 products next year there may be a change, depending on their growth and requirement and how season pans out.

Ritesh Gupta Okay. And last, on Nominee Gold have you seen any kind of impact in this first half given that there has been lot of generic pressure which would have come in. Has it impacted your margins in any sense and given that you will be possibly launching domestic manufacturing for it, how it can impact your margins or your flexibility in terms of dealing with competition next year?

Mayank Singhal Nominee has been on track as per our expectation. For us Nominee Gold as a brand has grown and clearly there has been certain level of price erosion but there are more than about 24 generic products which have come into the market. The company has been very well able to maintain its market share position of the product and I am sure and confident that we shall continue to grow this product because of the superior formulation and results that the product gives us and the customer satisfaction given henceforth.

Moderator Thank you. We will take the next question from the line of Ankit Agarwal from Centrum Wealth Management. Please go ahead.

Ankit Agarwal Sir just wanted to understand, on the CSM side if I look at our order book it has almost doubled in the last two years. But obviously the revenues have more or less remained around $200 million sort of a mark. So now like we said that in FY19-20 probably this order book could fructify to some extent. Do you think that we can reach that close to $300 million sort of a mark in FY19-20 in the CSM book?

Rajnish Sarna Yes, we should.

Ankit Agarwal Okay. And sir also on the new products that we have launched, what sort of opportunity are we looking at, maybe not in the near term but once they sort of mature, what is the size of the product that could come from the new launches that we have done on the domestic side?

Mayank Singhal Well, products that are there in the domestic side they have a sizeable opportunity and these are in segments, where PI is not present, so we definitely think they will contribute a double digit percentage figure for the company over the next 3-4 years.

Ankit Agarwal Okay. So sir close to Rs. 200 to Rs. 300 odd crore can come from these 3-4 products that we are looking at?

Mayank Singhal I would not give a specific number right now but they would be pretty substantial.

Ankit Agarwal And sir just want to get a sense from you, obviously on the government side, what is the thinking on price control and we are obviously in the recent times there was this whole curbing the amount of imports that we are doing. So what is your sense as to what is the government thinking on these issues and what is your take on that?

Mayank Singhal Well, I am not so certain as to what the government thinking on these issues is, but I think these are issues which were floated as ideas for valuation by the government and I am sure the government will definitely evaluate this in context to how this will pan out for the benefit of the end consumer. But at the same time it is very important for all of us to appreciate that the agro chemicals in the whole agri value chain as per the government data is well below 1.4% of the total cost to the farmer, but the criticality of this is extremely important. And I am sure keeping all these factors in mind the government does have the right to look at ideas, evaluate them but doesn't mean is going to go out and implement them. So that is my view of this fact.

Rajnish Sarna And there is still lot of discussion debates happening at industry, regulator and government level and there are both sides to all these new thoughts, whether it is price control or whether it is import control. So it is certainly going to take its own time because there is no ready formula as of now which is there with the government. So lots of consultations, discussion, debates are happening on same.

Ankit Agarwal Right. sir what sort of an order book can we end at based on the enquiries that we have seen in the recent times by end of FY18 or towards FY19 on the CSM side?

Rajnish Sarna It would be very speculative as of now to put these numbers as off now. Because what happens that the projects also move at a different stages in R&D. We have never done that in past also that we get an enquiry, we value that hypothetically and we add to this kind of order book position that is not right. I think it is not appropriate to consider this hypothetical order book basis, only enquiries or maybe some work on in lab. So we only consider that as order book once the business is confirmed for next 3-5 years and which is phased down at a later date. It takes anywhere between 6 months to 1.5 years, from an enquiry to a product to get to that stage. I think it would be better for us to kind of wait and see what numbers that we can get to.

Ankit Agarwal Sir, just to understand this, the order book which has say moved from around $600 million order to $1,000 million, a large part of that order book comes from addition of new molecules or is it that you get higher business from existing molecules because of the innovator would be selling in more geographies or the innovator has seen growth in that same molecule?

Mayank Singhal So both, happens. So with the addition of products of course that they, say for example if we have commercialized a project and after say a year or so the customer has come up with a long term plan, ranging from 4 to 6 years and we have got into some long term understanding and agreement, yes that adds to the order book is one. And second is we are already into some product and now with number of registration into new countries and all that or even through growth of the existing molecules if the volumes of next few years are increasing that also adds to the order book.

Ankit Agarwal So sir, the addition that we have seen of $400 million in the last year, broadly how will it be between new products and more business from existing products?

Rajnish Sarna Well, I will not have these numbers in front of me, but I would say that both these cases were there. The 25%-30% would have come from new projects also.

Ankit Agarwal Okay. And sir just on the Nominee Gold have we seen a de-growth or we have been able to see growth in the business overall?

Rajnish Sarna No. We saw the growth in the product. And also the growth in the overall market as well. So the good sign is that there is increase in overall market size as well with the introduction of so many generics.

Ankit Agarwal So sir in spite of seeing a significant fall in the pricing, you think the volumes more than compensated for that?

Rajnish Sarna Yes. To a great extent I would say.

Moderator Thank you. We will take the next question from the line of Alok Deshpande from HSBC. Please go ahead.

Alok Deshpande Sir my first question is with regards to CSM. So in your view when you were having a dialogue with your clients globally, what is the sense that you are getting in terms of where they think they are in the global AgChem cycle? Is it the case that the global innovators are thinking that the global cycle itself will revive next year or is it that cycle will remain this way and we will be getting more business out of them? Just wanted to understand your perspective on this.

Rajnish Sarna Well, the general sense is that this cycle should revive next year, maybe by the end of next year. Although it will also depend product to product but I am saying in general, the cycle should revive in 2018, by the end of 2018.

Alok Deshpande 2018 calendar year end you are saying?

Rajnish Sarna Yes.

Mayank Singhal There are some indications of the H2 of 18.

Rajnish Sarna And we are already getting some sort of such indications in terms of their communication, their ordering and their offtakes and all that.

Alok Deshpande And sir, the 10% or 15% growth that we will be targeting next year, will that be more volumes of the existing molecules that PI is doing or will it be also some part will come from the new molecules that possibly will start next year, so just wanted to understand that.

Rajnish Sarna No, both. And this is what I was telling that in last 6-9 months we have added significant number of projects to our R&D, you know and many of these projects are also progressing very well. So we are certainly hoping that many of these projects will get commercialized. As I said earlier that we are already commercializing couple of product in second half this year and likewise we will also be commercializing few more projects next financial year and so on and so forth. So obviously these new projects will also contribute to this growth. Apart from the volumes and values of existing products also growing once this cycle is normalized.

Alok Deshpande Sure, understood. Apart from Nominee Gold which were the other 3 or 4 products which you believe did very well and because of which you were able to deliver this 13% growth this quarter?

Mayank Singhal **T**here are couple of insecticide products which we have had a good run off and we hope to see the results come in the third quarter.

Alok Deshpande Okay. And you mentioned about the CSM sales growth target, 10% this year. Any expectation or guidance on the domestic side for this year now?

Mayank Singhal We are expecting to see this, looking at the geographies and the indicators which we are keeping along with same lines.

Alok Deshpande So you mean 10%.

Mayank Singhal Yes, broadly.

Alok Deshpande 10% for the whole year, right?

Mayank Singhal Yes.

Moderator Thank you. We will take the next question from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar Sir just, when you crystallize this order book, say get a new order of say $200 million, how does it get computed? So does the innovator give us a guidance in terms of volume ramp up in the next 3-4 years and we ascribe a dollar value to it, or is it a cost plus basis arrangement and whether the fluctuation in raw material prices we can pass on. How does it work?

Rajnish Sarna Well yes, I mean combination of whatever, all that you have said. So yes, the customers will certainly indicate the volumes over next 4-5 years. So that indication is always there.

Mayank Singhal As you would appreciate, we are also building capacities. So he is actually giving a very good clear cut indication and putting it down on paper. And price deviation does not happen drastically. The raw materials are not going to sink because they are really in the high end of the value chain; you are not low end of the value chain where prices could swing one way or the other. But some of these elements are in any case pass-through in case of raw material prices or currency and also, these things are already factored-in in our guidance**.**

Aditya Jhawar And in some contracts, the innovator locks himself for a period of say 3-4 years for a specific price of the contract?

Mayank Singhal Yes. But when an innovator is also launching a product, he also wants to have supply security and a commitment of capacity. So obviously the external challenge is what we sit and discuss and mitigate.

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

Vishnu Kumar Just wanted to understand, how long does it take typically from converting an enquiry into say a first commercialization and say it reasonably, get some reasonable volumes, an indicative timeline?

Rajnish Sarna Yes, anywhere between 1 to 3 years depending on the molecule. As you know that generally we work on new products, not in the mature and generic products. So sometime these new products, they start pretty early with us and in which case it may take maybe 3 years to start the product.

Mayank Singhal Majority is that. I think we have two questions, right? One question is how much time does it take to start the product from enquiry to start up, which can take something from 1 to 3 years, depending on the stages and cycle of products you mentioned. Product maturity, it can take up to 15 years, 20 years.

Vishnu Kumar Got it. So essentially the enquiry improvements that we are seeing will probably help us 2-3 years later?

Mayank Singhal Yes.

Vishnu Kumar Okay, got it sir. And secondly what I understand is that on your CSM side irrespective of price fluctuations that may or may not happen at the end of the market you get a fixed return per kilo or fixed returns kind of at least have been promised to you by the innovator. Is that a right understanding?

Rajnish Sarna No. It is not like fixed return or margin, but generally given the structure, transaction is such that most of these things whether raw material or currency, these things are on pass through basis. So broadly speaking we are able to maintain the margin over a longer period of time.

Vishnu Kumar Okay. In the past couple of years, as I see your financials between FY15 to FY16 from now on, we have materially improved our margins. Partly because what I understand is that, as commodity price has come off, let us say in a reversal kind of scenario where things have started to increase off late in the last 6 months, should we see some elements of margin correction or we still maintain the current profitability going forward as well in terms of the margin percentage.

Mayank Singhal That is a few confusion questions, I will just answer probably the last point. We hope to manage the margins and also you have seen the expansion. Right now, we are going through a lull period of growth rate, overhead leverage is not happening.

Rajnish Sarna So the profit margin improvement that you were referring to is primarily because of, one is the operating leverage gain that we have got and secondly also because of product mix, not necessarily the commodity prices or raw materials have gone down and therefore we have got some advantages, no, not necessarily.

Vishnu Kumar Got it. So even on a rising scenario we would more or less maintain a gross and EBITDA margins at similar levels?

Rajnish Sarna Yes, broadly.

Vishnu Kumar Okay, got it. And finally on the $1 billion order book that we currently have, this mostly has the volumes, I mean the launches that we are also talking about in the next one year or is there a possibility of a bump up say sometime next year when you see which you are talking about the growth that is going to come?

Rajnish Sarna These factors in the current estimates of the volumes, that understanding is there year on year. So if some upside or some sudden demand is there that would certainly be in addition to that.

Vishnu Kumar Okay. Got it. Finally just a book keeping question, on the CAPEX how much are we going to spend this year and next year?

Rajnish Sarna So our plan is close to Rs. 200 crore. We have already spent and invested close to Rs. 60 crore.

Vishnu Kumar And for FY19?

Rajnish Sarna For FY19 also currently the estimate is anywhere between Rs. 150-200 crore and also will depend if certain things progress well in our R&D and some businesses are kind of visualize and commercialize.

Vishnu Kumar Okay. And just one last question, on phase IV, are we going to start up the phase IV in Jambusar in the next 6-9 months or any indication on that?

Rajnish Sarna Not yet. Some parts are there, some expansion is there which is part of this Rs. 200 crore that I mentioned.

Moderator Thank you. We will take the next question from the line of Shekar Singh from Excelsior Capital. Please go ahead.

Shekar Singh In last two years, we have seen a bit of a slowdown. Now this slowdown is, did it happen because there was a built of inventory and now you are actually seeing this inventory running down and therefore you are expecting these to revive from 2018 onwards?

Rajnish Sarna Yes. I mean partly yes. But this particularly I was referring this inventory corrections not only for our products but in general, in the industry level I was saying.

Mayank Singhal The global growth rate of the industry has been at an all-time low, so obviously there is an inventory which was there. So demand was there, so now that has been knocked out.

Rajnish Sarna So for example, last year global industry, if you see de-growth of close to 8.5% and before that also there was very low percentage and therefore there was certainly inventory built up in the channel and with the companies and all. And that is because of the various initiatives taken by these companies over last 1.5 to 2 years. Those levels are now getting low.

Shekhar Singh Secondly, in terms of your raw material, how much has been sourced from China and are you actually feeling some sort of a pricing pressure on the raw material side?

Rajnish Sarna Yes. So there are certain percentage, maybe 25% to 30% of raw materials are being sourced from China and there is certainly some impact on raw material pricing front.

Mayank Singhal The uncertainty factor of China has really gone up. So it becomes a little challenging, but in the long term it is getting opportunity for us. So you are right in that assessment.

Shekhar Singh And see this price increase because of raw material cost pressure, are you in a position to pass it on to clients?

Rajnish Sarna Yes. In most cases yes.

Moderator Thank you. We will take the next question from the line of Levin Shah from Value Quest. Please go ahead.

Levin Shah My first question is on Nominee Gold. So as you mentioned that we have grown and though the prices have gone down, so can you just give a sense on what has been the realization drop for us?

Mayank Singhal Yes that would be market sensitivity information, given the competitive scenario. I would frankly try to hold that back, but as I mentioned there has been a price drop and at the same time there has been a volume uptick.

Levin Shah So the volume uptick has been more than the price drop is what we are saying and we have reported growth in the sales number of the product, right?

Mayank Singhal Yes.

Levin Shah Okay, and on CSM business, so now for H1, whatever we have done, so the asking rate if we are confident of achieving 10% growth, the asking rate for H2 is somewhere around 25% to 26%. So is that quite achievable or there can be further postponement in next year FY19 maybe?

Rajnish Sarna Yes. So sitting today, as I said earlier the business is enhanced. The business orders and purchase orders and everything is tied up. But yes, as you would understand that there are always kind of factors like execution, there are new products getting commercialized, this Chinese factor is also there. So, we have the business to achieve this growth. It is only now a question of kind of executing things and getting hopefully support from shipments in times and all that and then we should be able to do it.

Levin Shah Okay. And on this order book that we have currently $1 billion, so are our current capacities enough to serve the order book or we will have to build a huge capacities for that, for the next two years?

Rajnish Sarna So, as I said earlier we already have Rs. 200 crore kind of CAPEX that we have planned for this year, we are already building up and putting up balancing equipment or creating some additional facility, so that process is on.

Levin Shah Okay. And what would be the execution period for this order book?

Rajnish Sarna Well, these are generally depending on product-to-product, these are for 3 to 4 years. For some product we have for 4-5 years, for some we have for 2-3 years, something like that.

Levin Shah So let us say it is for 3-5 years, so like per year the execution run rate should be somewhere around $300 million, maybe not this year but from the next year or FY20 onwards. So for that, how much CAPEX do we need to put in?

Rajnish Sarna Well, that rate is not actually linked to the average of this order book and all because these are existing products and their volumes over next several years, for that there are already capacities on ground. The capacities generally would come for new projects, for which the order book is not there as of now. The order book will get added to these numbers that we are talking once long term commercial contracts are finalized and signed and all that. So these are two different issues. It is not correlated with the order book and the average revenue for this order book, no. For that we already have capacities in place.

Levin Shah So, what we are saying is for this $1 billion of order book, we have capacities in place, right?

Rajnish Sarna Yes.

Levin Shah Okay. And my last question on the Nominee Gold market itself. So if you can give any color on what would be the current market size in terms of volume?

Mayank Singhal The volumes have grown about 15% odd over last year.

Levin Shah That is for the industry, right?

Mayank Singhal Yes.

Moderator Thank you. We will take the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar For domestic business, assuming 10% growth in FY18, so the implied growth for H2 will be more than 20%, so what is the change you are expecting in H2 compared to H1 where in H1 we have seen a de-growth of 3%?

Mayank Singhal It is not a de-growth of 3%, actually the other way, H1 you mean right?

Sumant Kumar Sorry, positive 3%?

Mayank Singhal Yes, we are up by 3%. So definitely yes, we are going to see some uptick because this Rabi season is good, execution of certain crops that are definitely going to go up which were not so positive last year. This year, right from the beginning, chillies are looking good. Wheat season should also looking forward should be positive. So we expect that some of these things would help the company scale up some of its opportunities which were not available last year.

Sumant Kumar Okay and any Forex gain or loss in other expenses in Q2 FY18 or Q2 FY17?

Rajnish Sarna Come again.

Sumant Kumar The Forex gain or loss in other expenses for Q2 FY18?

Rajnish Sarna Yes, there is some**.** Maybe Subhash you can inform this number. Or maybe on the sideline we can inform you. It is not in front of me right now.

Moderator Thank you. We will take the next question from the line of Basant Patil from HDFC Securities. Please go ahead.

Basant Patil Can you share with this current capacities in the CSM, what kind of revenues we can achieve at the full utilization level? Is that possible to share?

Rajnish Sarna Yes. So currently capacities are again plant-to-plant and site-to-site, but on an average I would say close to 70% utilization. And too is kind of distributed for example in first half it was lower but in second half it is going to be pretty high.

Basant Patil Okay. What I mean to say is that with the existing base, are we able to achieve $300 million kind of revenues without doing any CAPEX, that I just wanted to understand?

Rajnish Sarna Yes. With some balancing investment, yes. But again depends. You will understand that these are multiproduct plants and again depending on what is the composition of this $300 million business and which are the products. So an asset can give you 2-3 times X of the revenue from the volume of asset. Depending on the product value, the volume and the reaction. But it is possible with balancing investment, yes.

Basant Patil So whatever we have plan for Rs. 300 crore investment and Rs. 150 to 200 crore for FY19, is that largely for the balancing including the R&D? What would be the contribution for balancing amount, can you share that?

Rajnish Sarna Yes. So it would be mix of both. Since some of these products will get commercialized, so we will need the capacity, new plant for manufacturing those products is on one side and also some part of balancing. So for example you have already a plant and want to add another product to that line, so some modification cost, some addition of equipment, may become expansion of utility, so those elements are also kind of factored in these estimates, projections that we are talking.

Basant Patil On an average we can assume that, so every year we have to incur close to Rs. 150 crore kind of the CAPEX, so to grow incrementally, largely in CSM, is that the right?

Rajnish Sarna To grow, yes.

Basant Patil We have to invest that kind of thing.

Rajnish Sarna Yes. So if we are adding say couple of products every year, 3-4 products, we are also kind of increasing volumes and output of these existing plants and projects, yes and they are not proportionate with revenue of the year as these investments are made into capacities which will be in the span of 2-3 years at peak. As more business comes up, investments happen and then the ramp up will happen at optimum level.

Basant Patil Yes. So once the ramp up happens at the optimum level, so that would deliver minimum 1x kind of the revenues for the investment?

Rajnish Sarna Yes, certainly. It is much better than one. It should be anywhere between 1.5 to 2x.

Basant Patil One more thing. Can you be able to share for the Q2 FY18 domestic EBITDA and export EBITDA numbers, is that possible?

Rajnish Sarna No, we don't do accounting for domestic and exports sales or something like this separately. It is all, because there are common assets and it is not possible, feasible to do this segment market wise or something like this.

Basant Patil Fine. No worries. For FY19, do you think the growth, in terms of guidance would be higher than the FY18 kind of the numbers or would be in line with the current trend, what is your thought?

Rajnish Sarna Revenues or what?

Basant Patil Yes, revenues.

Rajnish Sarna Yes, we expect to get, I mean obviously we will have much better visibility, clarity by the end of this year, but at this point in time we believe that the growth rate would be higher than the growth rate what we would be achieving in FY18.

Basant Patil Fine, What is the Nominee Gold contribution to revenues in domestic market as of now?

Rajnish Sarna That we generally do not share. In the past also, we have discussed these points that because of competitive reasons we do not share these numbers at all.

Basant Patil Okay, fine. Even for the next two years we largely fall into close to 25% kind of the tax bracket as a company on consolidated basis, overall revenue basis?

Rajnish Sarna Yes. It should be around that. Anywhere between 22% to 25%.

Moderator Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli If the Rabi season goes as per your plan, then your typical seasonality of Kharif versus Rabi, the Rabi contribution for the full year will increase. Is this sustainable as we get into FY19?

Mayank Singhal That completely will depend on how the season pans out. The next year season if it is good, sure the contribution would increase.

Rajnish Sarna But this is an interesting change that we are kind of seeing that these climatic condition, monsoon, rains, timing and there is certainly some sort of change in shift which would gradually change this overall phenomena because typically earlier Kharif used to be a bigger season.

Chirag Dagli Correct. And for you this Rabi increase is obviously by design that as you keep launching more products for Rabi, this contribution sort of keeps increasing.

Rajnish Sarna For this year maybe yes. But not necessarily every year.

Mayank Singhal It will go up as compared to last year with certain crops that are strongly present there.

Chirag Dagli Fair point. What is your sense of where the industry has grown? So your press release for the first half mentions about a 3% decline in the India market for you, India sales for you. What is your sense of the industry growth, sir?

Mayank Singhal The domestic market I think we definitely see some single digit growth, I don't see the industry would be. When the industry grows or are you looking at the industry growth?

Chirag Dagli Industry growth in the first half of FY18, India business?

Mayank Singhal If you look at the cropping acreages, if you look at cotton has been one of the two positive drivers of the industry growth, right? All of this vegetable sectors have also given certain growth, the rest of them have been under stress; pulses, rice, acreage has been low, irregularity in the manufacturing process, trade as well which was also there.

Chirag Dagli Okay. Fair point. And when do our own manufactured in India Nominee Gold get into the market?

Rajnish Sarna Next year.

Chirag Dagli So Kharif FY19, we will be in market with our own product?

Rajnish Sarna Yes.

Chirag Dagli And the last question, your comment about Nominee Gold seeing price decline but you growing market share. This is restricted to the Nominee Gold brand or is this also includes the B2B business that you do?

Mayank Singhal It is the overall scenario might improve.

Chirag Dagli Okay. So the B2B business has also not been impacted?

Mayank Singhal It would be in the same line. This would have whatever impact is happening will continue the impact because if market correct, we can manage**.**

Moderator Thank you. We will take the next question from the line of Rohan Advant from Multi Act. Please go ahead.

Rohan Advant I wanted to understand on the CSM business, we largely deal with patented products. So I would have thought that we would be less affected by the general market slow down if these specific new technology patented products pick up pace. So how much of our slowdown in the CSM space was on account of a general market slow down versus say any specific product or products not performing as per the innovators expectation?

Mayank Singhal If you start looking at the numbers, globally the industry has gone into negative figures. If you look, still the PI CSM business may not be at an aggressive growth, but it is still growing pretty well. So there is double digit de-growth in the industry. That will answer the question that yes, new patented products are still growing and hence we are also foreseeing that kind of a better picture. It is not that we are in negative growth rate as listed over the others.

Rohan Advant Okay. And in terms of concentration, I understand it fluctuates every quarter, but say for this half year or this quarter what would be the top one, top three products contribution in CSM which is there?

Rajnish Sarna Well that won't be in front of us. But, as we have explained in past as well, that in this business there are overall some 18 odd products and that too not that all these products are been sold throughout the year. So some products are falling in say a particular quarter, some products are falling in another quarter or half. So that is how these products are distributed over the year. And therefore even if this data is there, it may not give a very relevant information.

Rohan Advant And lastly when we report something as an order book, it is essentially an innovators expectation that this molecule can do so much volumes over a 3-5 year period. But of course it could do more volumes or less volume and we are setting up capacities based on that expectation. I mean if the actually volumes are much lower then what is the recourse that we have. How does the business model work then?

Rajnish Sarna See, generally there are deeper relationship with these large innovator companies. Although we have not seen any such situation in last 20 years in our business, but even if such a situation is there, the solution that lies in front of us is that that there are many products with these innovator companies that they are outsourcing. So they will certainly try and fit some other product in the capacity which is extending, is one solution. The other solution is that we can also try and find some other product and fit in those capacities and extending cost of these plants from these innovators if they do not have some suitable product in their portfolio. But generally these relationships are so deep that finding a solution to such a situation, eventual situation is not very difficult, which is a partnership of equal. Don't forget that they are also equally dependent on us for supplies and we are equally dependent on our aspect on them. So it works very well.

Moderator Thank you. We will take the next question from the line of Keyur Pandya from Prabhudas Liladhar. Please go ahead.

Keyur Pandya Just one question. If you see Q-o-Q as well as year-on-year, it seems that our working capital has increased especially because of higher receivables, so any directional change or any explanation you would have for that?

Mayank Singhal Fundamentally as the seasonal shift has taken place, as you would have seen and the GST situation has really compounded the problem to a much larger extent. But I do see that this would pan up and cure up in the next couple of months.

Keyur Pandya So it would get normalized gradually?

Mayank Singhal Yes.

Moderator Thank you. Next is a follow up question from the line of Mohit Pandey from Citi Group. Please go ahead.

Mohit Pandey I would just want to understand exceptional in the tax outgo in the 2Q?

Rajnish Sarna Yes. So there were time related estimates and adjustments like CAPEX and some of the benefits that we get in a specific quarter versus the other quarter. So those were the reasons that the effective tax rate for two quarters is different.

Moderator Thank you. We will take the next question from the line of Abhijeet Akela from India Infoline. Please go ahead.

Abhijeet Akela Just one clarification. You had mentioned that you are seeing some increased opportunities because of the problems faced by China. We have always been focused on the patented side of the industry and it was my impression that there are not probably too many companies in China that do this kind of work. So should we read into your statement that we are sort of beginning to work more on the off patent part of the industry as well now or is there a different interpretation?

Rajnish Sarna Not really, but as you yourself said that there are not many but there are certainly companies which are also, I mean in China, which are also doing patented molecule is one reason.

Secondly, even for some of these stages, whether molecule or intermediate, which these innovators were doing in China, they may be taking taking those intermediates to some other geography and doing the downstream product, so what they are planning to do is that, they seeking backward integration from some of their partners or strategic suppliers. And that is also kind of giving an opportunity to go deeper into these value chains and also some of these molecules where you were not present but because of some change in the overall equation you get into those molecules as well. But certainly not going towards generic side of these molecules, no. That is not the idea and intent.

Abhijeet Akela So out of this $1 billion order book etc. again I mean 90% plus will remain patented products?

Rajnish Sarna Yes.

Abhijeet Akela Okay. And within the very few Chinese companies that might be doing this patented work that we are doing, are they also facing any pressures do you think, or that is not really the key?

Rajnish Sarna Yes and no because they have certain plants for example, I was kind of reading and hearing that last month that around Beijing few 100 units got temporarily closed. So if you are in that sort of situation, yes. Whether you are a patented producer or patented product producer or whatever producer you get hit. You get impacted. And those sort of situations are very often happening. So for example now winter is starting there and in winter they seem to have already given a kind of mandate in many estates and provinces that there the chemical plants will shut for so many days or so many months. So that is it. So either if you happen to be in those geographies and those provinces, you certainly get hit.

Moderator Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Management Thank you everybody for coming on to this conference and your wishes. And wish you all a very good evening. Thank you.

Moderator Thank you. Ladies and gentlemen, on behalf of PI Industries Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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