"Punjab Chemicals & Crop Protection Limited
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Punjab Chemicals & Crop Protection Limited Q1 FY2022 Earnings Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Nagraj from Emkay Global Financial Services. Thank you and over to you Sir!

Rohit Nagraj: Thanks Mallika and good afternoon everyone. Thanks everyone for joining us on the call. We thank the management of Punjab Chemicals & Crop Protection for giving us the opportunity to host the maiden post results quarterly conference Call. Today we have with us the senior management team of the company represented by Mr. Shalil Shroff – the Managing Director; Mr. Vinod Gupta – the Chief Executive Officer; and Dr. S. Sriram – the Chief Financial Officer. Without much ado I hand over the call to Vinod Sir for his initial remarks on the business and financial performance for the quarter gone by. Over to you Vinod Sir! Thank you.

Vinod Gupta: Thanks and good afternoon everybody, I welcome all the people who are present in this call. We also welcome you to this maiden conference call and we will be presenting Q1 results for FY2021-2022. Before we begin let us hope that everybody is safe and Punjab Chemicals wants to appreciate the effort of COVID warriors, the medical fraternity and government for taking continuous efforts to keep all of us safe and let us hope that third wave is avoided in some way.

So before we begin on the quarterly results, let me also take this opportunity to introduce the company. Punjab Chemicals & Crop Protection Limited, was established in 1975 and we started as a generic chemical company. We are definitely proud about the journey that we have taken from being a generic chemical company to become a leading CRAMS company focused majorly on agrochemical products along with some specialty chemicals and pharma products. Over the last four decades, we have developed expertise in agro chemicals with in-house R&D and technical capabilities. Both our locations have their own independent pilot plants where we can research on complex chemistries. We are proud to be associated with global agrochemical giants like Adama, Kureha, Bayer, Nippon Kayaku, Corteva, UPL in our client base. We are continuously engaged with them not only to enhance the volume of specialty chemicals that we supply to them right now, but also around the new molecules they are developing. So lot of our projects are joint effort project in developing a molecule, it may be a new molecule or it may be a molecule which is going off patent. Punjab Chemical has the advantage in domestic and international markets.We also have strong positions on several registrations, we are trying to take advantage of them to expand and grow our company. Fortunately for agrochemical industry, this is one of the few industries, which was not majorly affected because of pandemic and we are witnessing a significant improvement in the demand and also a shift in global supply chain which is favorable to India. Many companies are looking at alternate sourcing destination and they are coming to India and we are taking benefit of this and we are strengthening our position to take more benefit of this drive that has taken place.

For FY2021 we reported highest ever EBITDA in last 10 years, also we have been very focused on deleveraging our balance sheet and we reduced our long-term debt by 13.1 Crores in 2021. Continuing with the robust performance of FY2021, our Q1 FY2022 performance I am happy to just narrate a few numbers here. On year-to-year basis our revenue has increased to 60% from 132.2 Crores to 211 Crores. In Q1FY21 there was a short period of about 15 days because of COVID which had impact on last year's revenue. Gross margin was slightly lower from 43.7% to 41.4%. EBITDA has grown from 22.1 Crores to 36.9 Crores, and EBITDA margin has grown up from 16.7% to 17.5%. PAT has more than doubled from 11.2 Crores to 24.3 Crores and PAT margin has improved from 8.5% to 11.5%.

Now this particular performance has definitely motivated the management and the team to sustain and we continue to remain focused on growth. As we are in an agrochemical space where we undertake hazardous operation, safety is our top most priority. We continue to focus on higher standard of safety and hygiene in our manufacturing facilities. I want to announce that about 90% of our staff has recevied at least one dose of vaccine and we are planning to cover the remaining staff in next fortnight or so. So we will have both employees and contractor staff vaccinated close to 100% with at least one dose. We thank everybody in our growth journey which includes our employees, customers, suppliers, everybody, and now we are open to Q&A and thanks for your patient listening.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pritesh Chhedha from Lucky Investment Managers. Please go ahead.

Pritesh Chhedha: Sir I wanted to understand the progress towards our 1500 Crores revenue target and the current order book that we are running. We had one product from Kayaku and Singapore company which was supposed to generate additional business in FY2022.What is the progress there and what is the revenue expectation now you have for 2022 and 2023?

S. Sriram: I think our order book which is close to 1500 crores is based on our long-term agreement with all the leading suppliers. We have multiple year agreement and most of these agreements are automatically renewed unless and until one of the partners decides to exit. But the products that we are in, there is stickiness mainly because of the registration challenges which generally are a long duration activity. If we add up all our contracts it runs to close to 1500 Crores, that is the visibility we already have. Regarding the two specific products you asked about, both the products have been commercialized. On the first product with Nippon Kayaku, we have already started commercial shipments and the production is still under stabilization with respect to yield, but regular shipments have started. Regarding the second product, it generally goes out in the second half of the financial year so we will start selling of these products from H2 and we are expecting about 80 to 90 Crores addition to the topline. What was your third question?

Pritesh Chhedha: I was asking for revenue expectation for 2022 and 2023 at company level. If 90 Crores is what we are mentioning for second product for Kayaku, what kind of topline should we expect?

S. Sriram: In current year because we have started a little late, we will start with about 25 Crores in this year and then gradually it will increase in subsequent years.

Pritesh Chhedha: So 25 and 90 about 110, 120 Crores?

S. Sriram: 110, 120 Crores in this financial year and followed by next year I think it will be much, much higher.

Pritesh Chhedha: So in the 800 Crores of revenue for 2022 global and 2023 what will be your thoughts?

Shalil Shroff: Yes you are right if you see our first quarter we are already at 200 so if we take from the second, third, fourth so our plan is to do a little bit more than 800. But couple of challenges exist in terms of shipments, getting proper containers, etc. To answer yes, as Vinod said, order book position is in place, a few delays because of the second wave of COVID. But as on date we are pretty optimistic that the way the vision of Punjab looks we are going to be beyond 800 for this financial year.

Pritesh Chhedha: Sir there is improvement on the margin side in which we see both on the gross and the EBITDA at about 16%, 17% now, which were earlier at about 13%-14%. Any comment on the margin side and sustainability and how is our raw material if any moving adversely your beneficiary products?

Shalil Shroff: I think in couple of calls we have always told you that we have long-term contracts that we discussed very openly with the customer so raw material is an issue which is always an auto check on a quarterly basis. But having said that,shipments are remain a challenge. We expect with the product mix , we will continue the same momentum as of Q1.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Thank you for arranging the call. I have two questions before I fall back in the queue. This question is from the annual report which mentions that there is an industrial chemical division in Pune. Can you help us with what is the current capacity of that unit and what is the current capacity utilization?

Shalil Shroff: Yes, as Vinod mentioned, we are into agrochemicals, specialty chemicals and the phos acid of the industrial division falls into that Phosphoric acid is of a higher grade which goes in pharmaceutical and for example beverage manufacturers like Coca-Cola and Pepsi so at the moment we are at around 75% of our capacity over the last two years. We have been also focusing to export this product not only sell domestically but also look at international players so going forward we have already put in a plant where we will be doing an expansion with the capacity as on today to take it to at least half of what we do right now in the next close to around six to eight months from now.

Rohit Ohri: So at the peak capacity you can do around 70 odd Crores from this unit?

Shalil Shroff: This unit for this year we would do around 50 plus but if everything goes well next year we should do double .

Rohit Ohri: Apart from this expansion are you going for any expansion in Lalru?

Shalil Shroff: Yes, as Vinod said, and we have been discussing, we have a big opportunity and this is a phase 1 of where we are. We are on auto pilot at the moment, we are looking at new sites, we are looking at new avenues to grow and our Lalru site which also has excess land available. We are discussing with more and more customers, we expect to come out at a appropriate time and inform accordingly.

Rohit Ohri: My second question is, by when do we see Punjab will be a debt free company?

Shalil Shroff: Over the last couple of years or maybe 8, 10 years we have gone through a rollercoaster and we have been pretty lucky because our product portfolio is very strong with very strong registrations and very strong customer base.

S. Sriram: We have around 80 Crores of credit line given by the banks.

Shalil Shroff: The credit line is for our exports and other aspects so going forward we do not see that we would increase this but maybe to a taper end maybe between 15% to 20% in the next one or two years would go down but there would be some lines such as LC facilities, post credit facilities, etc. would continue.

Rohit Ohri: So is it fair to assume in eight quarters or so you will become debt free?

Shalil Shroff: That is our plan.

Rohit Ohri: Okay Sir, thank you. I will fall back in the queue. Thank you.

Moderator: Thank you. The next question is from the line Thomas Priju from Alchemy Capital. Please go ahead.

Thomas Priju: At the outset, congrats for an excellent quarterly performance. I wanted to get a sense of bigger picture over the next three to five years. In your space in CRAMS in the agrochemical or specialty side, beyond the traditional markets of US and Europe markets like Japan and Korea also looking up for India so from a strategic perspective. How are you building the management bandwidth, the employee spends, the R&D and what is your broad vision for the company and how do you see the changes happening over the next three to five years?

Shalil Shroff: As you rightly mentioned the business is a big ocean today and the opportunity coming into India is very high and within few customers whom we are discussing they also have a robust plan to outsource. The vision of Punjab Chemical is to be a good supply chain to corporates, like few of the customers with whom we are working and few of the new customers whom we are discussing with. So on a regular basis their products which we are already supplying, with the same customer we are also looking in the next one to three to five years what are the products they are looking at. I will give you an example for this one company Adama,which is a $5.2 billion company and if you take 60% of that, close to $3.5 billion, worth of raw materials which they buy, obviously they will not buy everything from us. But the relationship between Punjab and Adama has been for more than 20 years and we are growing so we are not only working with them for their Indian part but also working with them globally. So over the years their R&D team our R&D team are always in constant touch to see what are the opportunities we can grow product-by-product. So taking that value add with just one customer we believe that our revenue this year we should be around 800 crore plus.In the next three to five years, the way we are looking our customer base, the way we have interacted with our supplies and we are happy with what we do we believe we can grow our revenues to anywhere between 2500 to 3000 plus Crores.

Thomas Priju: Thanks and all the best for the future.

Shalil Shroff: Just to give a brief that Mr. Vinod Gupta has joined in as a CEO. He comes with tremendous load of experience. As the management we are always in a mode to have new talent, new people coming in, taking the best technology available and the talent available so that will be always there and as and when there are changes there are things we will definitely keep all you guys informed.

Moderator: Thank you. The next question is from the line Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: Congratulations on great set of numbers. Sir if I look at your EBITDA margins for the last two, three quarters it has mainly been varying due to gross margin, if you could give us some insights on your key raw materials maybe one or two raw materials which are really important and drive that gross margin number for us?

Vinod Gupta: First of all I would say that you do not measure us on a quarter-to-quarter basis because the product mix in various quarters is different. Secondly, we have certain products like Metamitron, HH, which is a very important raw material for us, but we have a long-term contract with the suppliers to gett from Europe and Japan. In addition to that, what we have done is we have now put in a plant where we are going to distil their lower purity Hydrazine Hydrate. These are the factors which we are trying to put in place so that our cost of material comes down and we have a better margin. So similarly we have other products where we are working with various Indian customers. 30% of our overall raw material comes from China, but we are working with various other Indian manufacturers to supplement the requirement from other countries. So these are the areas we are working on so that our overall material cost comes down and we have a better margin.

Shalil Shroff: Just to add to bring in more broader perspective, so whenever we look at product as a company in Punjab we have a very clear philosophy we always look at our raw material because it is very important. Also please understand is that when we supply an active ingredient in the final product, we talk to companies like Syngenta, Corteva, Adama, UPL the big companies which put in a lot of money in the registration. So it is even more important for us, we have a dedicated team at Punjab which works how we can simplify to manufacture these raw materials within India and have alternate sources so by and large to answer your question yes raw material has been a challenge for everybody globally but by and large we foresee that if there something which goes out of the box we always stick with the customers because this is part of our contract to take it forward.

Akshay Satija: Got it Sir. Thank you so much that is it from my side.

Moderator: Thank you. The next question is from the line Ashish Thavkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thavkar: Sir any update on the Lalru facility which was back in production in FY2021 is this definitely now fully online?

Shalil Shroff: I am sorry your voice is echoing I could not hear your question properly.

Ashish Thavkar: So probably I will just try to re-login.

Moderator: Thank you. The next question is from the line Rahul Jagwani from PGIM India Mutual Fund. Please go ahead.

Rahul Jagwani: Alluded to 1500 Crores revenue before so as of now what kind of capacity will we need to get there and what is our utilization currently on the capacity?

Shalil Shroff: As we already mentioned that we have the order book position in place between the three sites at the moment, we are at around 80% of our utilization.To be looked at from a product mix point of view and we believe to achieve the existing target in the next two years we have the band width. Maybe there would be a little bit of some minor adjustments or fine tuning these equipments that would absolutely survive for us to achieve the target.

Rahul Jagwani: What would be our capex in the next two years?

Shalil Shroff: Two aspects, one is that we have an ongoing capex and as you know that with the performance we also have a very good cash flow coming in, We believe in the next two to three years we will need anywhere between 50 to 75 Crores for updating the facility .

Rahul Jagwani: Okay thanks.

Moderator: Thank you. The next question is from the line Jyotivardhan Jaipuria from Valentis Advisors. Please go ahead.

Jyotivardhan Jaipuria: Hi Shalil great set of numbers. I If you look at the last few years, the margins are always highest in the June quarter and then progressively they come down during the year so is there any seasonality element in the June quarter which helps margins?

Shalil Shroff: Once again thanks for the observation, but it is product mix which sometimes give this. In the last two years we have seen our Q1 has always been better, in fact the last year quarter was a little bit lower because of the second wave of pandemic and we could not operate for almost half the month. But moving forward generally, our third quarter is a little quiet so if generally the one, two and then the fourth comes in it is again depends on the product mix. Nowadays the biggest challenge is with the shipment so we hope and pray that everything goes well for this coming financial year.

Jyotivardhan Jaipuria: Like earlier you were thinking more like you will do EBITDA margins of around 15% but we have done 17% in this quarter so you think 17% is sustainable or should we think of 15% type of margins on a full year basis for next few years timeframe?

Shalil Shroff: Our way is to ensure that we do this 17% which we have projected in the first quarter. In the product mix, maybe some products are getting delayed on a quarterly numbers so that is why we always request please do not look at more on the quarterly basis, look on a six monthly basis. At the moment we are pretty confident that we should be between that 16% and 17% range.

Jyotivardhan Jaipuria: Thanks.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Congratulations for a great set of numbers. Sir in your annual report you are talking about renewing your relationships with Indian formulators and build a stronger base in the Indian market. So are we planning to diversify getting into pharma APIs or any other related products or any other chemistries?

Shalil Shroff: Punjab Chemicals vision is to be a strategic supply chain to many companies globally as well as local companies. We are trying to work with three or four big formulated companies where we supply them the AI which is the active ingredient. This becomes a very strong partnership we try and rope in on a more on a long-term basis than a short-term basis. So for example over the years we have now cultivated many companies and you will see in the next couple of quarters as well as next year that our domestic sales towards AI will also grow. We are also into specialty chemicals so we are already supplying to companies like Mylan, Laurus, Divis etc. With them we are looking at what we can do in terms of advanced intermediates, not the final API. For the advanced intermediates we become a very suitable partner because we are not in API as we are more into agro. As far as regulatory and product manufacturing also advanced intermediates we can make and we can supply to them so this becomes a good added bonus. Like we are already supplying one of our advanced intermediates to Laurus Labs and we are always in touch with their team how we can grow this portfolio. So you would see in the next two years a lot of this part of business growing, which also converts into a long-term. Please understand in registration, whether it is a pharma or an agro it is very important that the manufacture like if it is Punjab Chemicals we become part of their DMF or part of their top package. So on a long run it is a win-win situation it becomes much better for both the companies to understand and again it is a long-term business vision which we were to grow into different parts along with their product range.

Chetan Phalke: Just one more question how many of our molecules are fetching us more than 100 Crores of revenue as on date and how many can get into that 100 Crores plus revenues going forward because I understand there are some 5, 6 molecules on the pipeline so how many of them?

Shalil Shroff: Just to answer that, in our phase one we did not have a very strong balance sheet so obviously when we discuss with customers our molecules were between 5 to 10 to maybe 20 Crores .But over the last three years we have drawn that in phase II to go beyond 100, 200 to 300 Crores. At the moment we have five or six products which are over 100 Crores in terms of volumes, there are few products which are under that banner and which have a potential to grow. In agro we need registrations at couple of laboratories so we are already in touch with them, and we expect that this also in the next two to three years as and when the registration comes in because these are again in countries like Latin America which is a fast growing market so there sometimes the registration process takes time.

Chetan Phalke: So 30% of our revenue is coming via innovative molecules, so how much of this is from UPL. Going forward as we plan to increase this 30% to a higher percentage, is it fair to assume that incremental growth will come ex of UPL and from other customers?

Shalil Shroff: To tell you that UPL always also looked our supply chain mean go for example UPL has got lot of timing there is so much of raw materials which they would like. But moving forward as I said this Adama, with UPL, with Nippon Kayaku, like for example Nippon Kayaku is a huge company they add more businesses close to around $2.8 or $2.9 billion. Today the product which we supply is not even $15 million, so moving forward it gives us a good opportunity because please understand with the Japanese or many customers when they already have a relationship with supply chain, they do not want to put all the eggs in the basket. But they want that there should be certain product where they believe Punjab has a good capability and that is how they would work with us. So moving forward ,yes UPL is an important customer, Adama is also important customer, having said that even as long we take we talk to Nippon Soda, we talk to Hodogaya, we talk to Syngenta, Corteva, FMC so many companies are being approached. Like for example with Bayer Crop Science, we did some small business around two years back, there was a little quiet but suddenly we have started again discussing and looking at avenues how we can complement each other and grow this business on a longer run.

Chetan Phalke: So whenever we hit the planned revenue run rate of 1500 odd Crores what percentage of revenue will be via innovative molecules?

Shalil Shroff: The innovative right now as I said we have four products which are the brands belonged to this other than three are the Japanese and moving forward we are in discussion but it is all very confidential so I am very sorry I will not be able to name the customer, what name, what product etc. We will definitely be more than happy to share with you once everything is streamlined, get the customer onboard they are also happy that we can tell our good investors that this is the way we are moving forward so apologies for that.

Chetan Phalke: I was just trying to understand the gross margin profile should we assume higher gross margins and what they are today or there will be as they are that is what I was trying to understand.

Shalil Shroff: Taking the industrial companies like PI or UPL or companies just to name few of them, this is where we want to grow we are now more stronger.We have a better system in place, we have a good people where we are trying to cut corner so it is not only from the plant operation point of view raw material requirement but even sitting with the customer and trying to see what type of complex chemistry we are working on so based on that we believe that in the next two years we are also returning to take this EBITDA from 16%, 17% to maybe between 18% to 20%.

Chetan Phalke: Thank you Sir.

Moderator: Thank you. The next question is from the line Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: The contingent liability which we have on the annual report somewhere around 76 odd Crores, which the authorities are claiming after 13 years, so is Punjab sure that this will not have any material impact on the company's financial position?

Shalil Shroff: Yes, I think you have a very keen observation on our balance sheet and thank you very much for that. We are also shocked to get that notice. Actually the authorities seem to have missed the advance tax already paid by us and there is no liability coming on our head. So we need to again go in for appeal and get this rectified. Hopefully we will be able to fix this quickly. You can also see that auditors have seen this and that is the reason they have put as contingent liability because the assessment order has come like that. But if you look at it very fairly this is not likely to impact our balance sheet in anyway.

Rohit Ohri: Yes, thank you, thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: Congratulations for a good set of numbers. Just a small clarification in terms of capex ,I think so you said around 50 to 75 Crores in the next two to three years right?

Shalil Shroff: Yes.

Manish Mahawar: Yes, just I wanted to confirm this is our contribution or what I understood like customer will also contribute to some extent? So this is our contribution or do we also include the customer contribution as well?

Shalil Shroff: No this is only Punjab.

Manish Mahawar: What could be the customer contribution maybe over the next two to three years? The total number we will capitalize to the balance sheet instead of our contribution?

Shalil Shroff: Yes, what you are looking at, at least 50% depending on customer it can be ranging 50% to 60% being contributed by the customer. this gives the emphasis that they are also equally keen on developing the molecule with us and we derisk our investment so these are the two areas they will be able to help us out and also gives us a strong cash flow position as far as our investment is concerned, so we look at around 50% to 60% of contribution from the customer but all depends on the various products and how the contract innovation takes place so it can vary product-by-product.

Manish Mahawar: Including customer contribution it should be in the range of around maybe 125 to 150 Crores over the next two to three years?

Shalil Shroff: Exactly.

Manish Mahawar: Second one in terms of EBITDA margin, just wanted to clarify this year you are expecting around maybe 17% to 18% EBITDA margin which we did in 1Q and over the longer term we wanted to have a number of around 19% to 20% EBITDA margin that is right?

Shalil Shroff: I did mention that we have the product mix and there are certain challenges with the shipments so do not take us on a quarterly numbers but Manish. Going forward as I said for this year, we would be between 16% and 17% that is where we are looking at and post 2022-2023 we should be in that 18%, 20% bracket.

Manish Mahawar: Sure Shalil. Thanks and all the best.

Moderator: Thank you. The next question is from the line Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: Just wanted to understand how you see the contribution of Metamitron and Metconazole for this year and going forward in percentage terms as a part of business?

Shalil Shroff: Both these products are very strong we work with the companies who have like for example Metconazole is a innovated product belonging to a Japanese company and this is growing molecules in terms of different mixes. So today where we stand with the tonnage has a potential to grow within the next two to three years depending on the registration revaluation within the EU can bring in a topline of anywhere between 150 to 200 Crores additional sales. As far as Metamitron is concerned, two companies , Adama and UPL who control the international shocks and we supply to both of them. Hence on Metamitron we could see an upswing, anywhere between 5% to 10%. Close to 60% to 70% of the market demand is being produced by us and the balance 40% is thereby from other source because we always need sources to balance their buying power from different customer.

Karthikeyan: So these would not be profit dragging for you right I am just trying to understand from that point?

Shalil Shroff: No, I would put it that they would be definitely on the topline as well as margin wise. I would not like to name one product but there is just one product which we are already making and today the market size is more than 3000 tonnes. This is also a high based AI is close to around $45 plus a kilo and it is only Punjab who makes it, and we are backwardly integrated. So there are products other than Metamitron and Metconazole which also have potential, but again as I said the mixtures with the registrations need to fall in place within EU & America. We are working with the customers and we have a vision where in the next two to three years with this comes in this is an additional sales this will be generated out of this spot.

Karthikeyan: When you talk about product mix determining profitability in a particular quarter, I am just trying to understand if there is a long tail somewhere in the portfolio that bothers because then the future business becomes even more critical. Or is it just that the contract structure is that you are unable to pass on these cost spikes immediately and therefore there is a temporary lag between two different prices catch up with the cost?

Shalil Shroff: You have nailed it absolutely right. When it is a long-term contract in the last two, three years raw material prices have gone up crazy and if you look at it, it is not practical. To sustain that business over the years you and your principle or if it is for example Adama that you are working with , you also have to balance your equation it should not happen that the product is so costly that the farmers or the end consumer does not buy. It is always a give and take, so you are absolutely right it is a faith and we believe I think the rectification should come in. For example ocean freight costs for the 20 feet container has gone up three times. This has never happened in at least 30, 35 years of my experience in this business. I know that this is a phase and maybe a year or two year down the line the same is with the product the raw materials and the final goods.

Karthikeyan: Thanks very much for clarifying very best wishes Sir.

Moderator: Thank you. The next question is from the line Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: My question is also on similar lines what the earlier participant was asking on margins. So our aspiration for margin improvement from where we were until last year to what we are in for 2021 to be 16%, 17% and going forward to improve it further. Are we just expecting this margin improvement on the back of higher contribution from our contract manufacturing business or is it like you were mentioning older contracts now will be renewed at better margins or incrementally most of our products will offer better margin. If you could help us understand what will be the key driver for this margin improvement that we are talking about?

Shalil Shroff: As you know I would say it is a mix of everything because when we have a contract on a year-to-year basis other than the raw material cost we also look at the variable cost and your margins so it is a mix of all the three. It is partly from a contract manufacturing partly is from our regular sales of product which we do which determine on how the bandwidth of the inflation happens with the country the same way we take it forward.

Alisha Mahawla: Just wanted to clarify this 1500 Crores revenue target that we have do we expect it to achieve by FY2024?

Shalil Shroff: The moment as I said we are very, very confident but there are so many things the second wave nobody knew that it would hit so badly. In the ocean trade there are so many challenges, certain raw materials not coming in so I hope in the next two years nothing derails us like this. I would say at the moment with the order book position we as a company are 100% ready to launch. We are on auto pilot, everything is ready but maybe with some ups and downs we would not be that away from the target what we have said other than there is a force majeure.

Alisha Mahawla: Just coming back to the margins, in our long-term contracts is there a clause for pass on in case of increase of raw materials or the only in case of substantial or if it is maybe to the tune of 5%, 8% then we have to absorb it. When the contract gets renewed eventually in a couple of years that is when we are adjusted or can we pass it on it with one, two quarter lag?

Shalil Shroff: Yes, so what happens is it is on a quarter-to-quarter basis so obviously on that quarter if we have decided we do not change it but we go back to them in next quarter and yes we do not look at 1% to 3% but anything beyond that is definitely looked at it and also please understand all these products which are under contract above high value above $20, $30, $40, $50 a kilo so we have to look at it because then the RMC also if it is anywhere between 58% to 62% depends.

Alisha Mahawla: Sure got it. Thank you.

Moderator: Thank you. The next question is from the line Ashish Thavkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thavkar: Sir I just needed an update on this Lalru facility just wanted to know whether this facility is fully online?

Shalil Shroff: Yes, it was online and we manufacture there we have production running . I also mentioned that in Lalru we have excess land so we have an opportunity to expand there.

Ashish Thavkar: No I thought this facility was refurbished completely so that is the reason I was asking if it is online for more production.

Shalil Shroff: No we have been using this facility for quite some time and new facilities when I say new facilities when a new product comes in we expand put a new doc and start using that so it is a running operation.

Ashish Thavkar: What would be our capacity utilizations currently at a gross level?

Shalil Shroff: Around 80%.

Ashish Thavkar: We can go up to 95% that is a fair assessment?

Shalil Shroff: Yes we always go ahead but normally in a chemical operation what happens is we do not try to operate full capacity 100% we have some more capacity in case the customer needs additional volumes then we are ready to deliver and always we keep 10 to 15 extra with us.

Ashish Thavkar: When you say that 4 to 5 years horizon from 800 Crores plus revenues to 3000 Crores plus revenues, when we have that kind of a strong visibility would it be possible for you at least in percentage terms to let us know what could be the incremental revenues that might come from this CRAMS contract?

Shalil Shroff: Yes it would be approximately 55% to 60% from CRAMS contract side.

Ashish Thavkar: Currently that number might be pretty low right?

Shalil Shroff: Right now we would be at maybe around 45%, 50%.

Ashish Thavkar: This is very helpful and just one last question so last time you were talking about this upcoming contract with an Indian manufacturer would it be possible to name the name of that molecule would it be the generic of Coragen?

Shalil Shroff: As I said just give apology sometimes products are confidential many people do not like to discuss so yes it is again I could only say it is a specialty product and we already started the production and everything is going well Please do not focus at more on product names because every company has their own, not only Punjab but we also have an arrangement with our principles or our customers which we cannot really disclose.

Ashish Thavkar: No issue, this is very helpful thank you and all the best.

Moderator: Thank you. The next question is from the line Rohit Nagraj from Emkay Global Financial Services. Please go ahead.

Rohit Nagraj: Congrats on good Q1 numbers. Sir my question is on the R&D front so currently how are we placed in terms of our overall R&D and you also mentioned about our focus on pharma intermediates. How are the resources divided between agrochemicals and pharma intermediates and what is the pipeline that we are looking at so if you could just give a more color about the entire R&D initiative it would be really helpful? Thank you Sir.

Shalil Shroff: I just make a statement and then maybe Vinod can add up. So as I said in our R&D we already we work with the existing customers, in the new projects which we are doing. Their R&D does not only restrict to AI but also as I said advanced intermediates. For example somebody has asked me a couple of minutes back I said we talk with companies like Laurus, Divis and what we can do in terms of supply. There are some projects which we do with pharma companies in the US;

for example Abbott what can we see is there some opportunity we could look at. But as far as API is concerned we would prefer to provide advanced intermediate supply then look at an API. Having said that, in the agro sector we have looked more or as an AI and also because some times for registration purpose maybe sometime we make that intermediate we give it to them and then in phase I, phase II as the registrations comes in we take it forward. In his statement opening remarks, Vinod said we have two main plants in northern part of India and both of them are full-fledged R&D we have with mini pilot plant to up to 500 kg pilot plant, each facility we have PhDs, we have a team of chemists, so between both the plants we would be between 60 to 70 people in terms of strength in both the factory.

Rohit Nagraj: Sir just one added question to this, on the AI front so advanced intermediates for pharma do we need any regulatory approvals for our manufacturing facilities or we are fair with the current set of approvals and registrations? Thank you.

Shalil Shroff: Yes, as far as advanced intermediates there is not much which we need as far as any European guidelines. We need to follow a proper practice for the way the raw material inward, outward which we do for all, but with whomever so far we have been supplying these advanced intermediates on the pharma side they have audited our plants and they are pretty happy and satisfied. Maybe for the last two years people have not come in because of the pandemic but otherwise we have regular audit not only from the advanced intermediates but even from the AI supply.

Rohit Nagraj: Thank you so much and best of luck Sir.

S. Sriram: We already have a good R&D team and at the same time looking at the requirement that we have seen from our customers we are augmenting our team, we are recruiting fresh resources and also at the same time we are also tying up with few experts in the market who can help us in commercialization of product faster so that investment will continue as Shalil has already said.

Rohit Nagraj: Got it Sir. Thank you for the answer and best of luck.

Moderator: Thank you. The next question is from the line Prateek Chaudhary from Saamarthya Capital. Please go ahead.

Prateek Chaudhary: We are almost targeting doubling of our revenues over the next two to three years and we also mentioned that our incremental investment in our capex would be around 70 to 80 odd Crores. Could please explain how because usually we have seen in the industry that asset turnover is usually in the range of 4x to 5x max and here we are talking without upwards of maybe 8x so are there further investments that we would announce in times to come and even for the longer-term three to five year target that we spoke about 2500 to 3000 Crores topline target so if you could please give some additional information on what are the investments and what is the capex that we would have to spend too much in these revenues?

Shalil Shroff: Yes, so let us break this into two parts, one is that today where we are and where we want to grow. Within the existing facilities we have from Punjab side and the customer side anywhere between 120 to 130 Crores would be required to go beyond 1500 crores in terms of topline. For your question number two, as we said that we are looking at a newer place or newer capacity enhancement which the team are working on and as and when we will form up something we will keep you posted on what is that amount which would be required to grow from where we are towards 3000 Crores.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Shalil Shroff: Thanks guys for your time and questions and as already told we are on a very good firm footing and I think with the customer base we have and the way we are moving forward and as and when if there is something we will definitely keep you inform. Please feel free to contact us anytime me, Vinod, Sriram are more than happy to answer your question even if it is one to one basis and we thank Emkay for organizing this. Vinod if you have some closing remarks.

Vinod Gupta: Thanks everybody for the time today and we will definitely try to be on the course that we have charted out for ourselves and obviously we will make sure that more and more visibility has given to our plans to the investors to get more confidence in future.

S. Sriram: What I want to add, is most of the information what we have shared are very forward looking statement and you need to look at it from your perspective and as Punjab team what we assure is we want to be very transparent. We have a very good auditors like KPMG with us and we are also strengthening our internal audit team. we thank you very much for your presence.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.