

“Punjab Chemicals and Crop Protection Limited Q1FY23 Earning’s Conference Call”

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MODERATOR: **MR. MANISH MAHAWAR - ANTIQUE STOCK
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- Moderator:** Good morning, ladies and gentlemen and welcome to the Q1FY23 Earning's Conference Call of Punjab Chemicals and Crop Protection Limited hosted by Antique Stock Broking. 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 touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Mr. Mahawar.
- Manish Mahawar:** Thank you, Michelle. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Punjab Chemicals and Crop Protection. From the management, we have Mr. Shalil Shroff, Managing Director; Mr. Vinod Gupta, CEO; and Dr. S Sriram, CFO on the call. Without further ado, I would like to hand over the call to Mr. Shroff for opening remarks. Post which, we will open the floor for Q&A. Thank you and over to you Mr. Shroff.
- Shalil Shroff:** Thanks, Manish. And guys, welcome to this first Q1 for Punjab Chemicals this year. Thank you so much for your time. I hope, you all are safe and being a long weekend, be a little bit more careful because, still COVID is around and as usual we need to take precautions and I'm hope you're taking, so I will just, hand over to Vinod and Sriram, they'll just give you an update on what has been the journey for the first quarter and thereafter then we can go into discussion on any queries questions you have and to the best of our ability we'll do our utmost to reply to all your queries. Thanks.
- S. Sriram:** Thank you Shalil. This is Sriram here from Punjab Chemicals, I'm CFO for the company. Thank you very much for attending this call today. And I think it's Rakshabandhan Day and I hope you all celebrated this early in the morning and coming, attending this meeting. So thank you very much for your time. And as you know our growth momentum continues with the revenue of almost INR 272 crore in this quarter, which is close to 29% on a year on year basis. So that's a very robust growth as far as, we look at it from the sales strong point of view, but there are some concerns as you all know the raw material prices and utility costs have an impact on our gross margin. And, so, that's the reason, you must have seen in our balance sheet also in our profit and loss account. So there's a slight reduction due to that. The gross margin has reduced a little bit, but we are putting an effort to pass it onto the customer to the maximum possible, maybe, another one quarter, we may see a similar result, but post that we are confident that it'll improve. Also if you look at the global supply chain is yet stabilize, as you have been telling from the last two quarters, the shipping lines and logistic cost has gone up, not only because of fuel, but also availability were an issue. So that's the reason the logistic cost has remained little elevated. But, we are very confident because, our order book remains very robust. Our customers are very much satisfied with our product and they are placing our repeat orders, as we go along. So, this is what, we wanted to just communicate to you all being our stakeholder. And also if you look at the PAT, we are close to INR 20 crore of PAT we have generated in this quarter. So with that, I hope you would have seen our presentation also, which was posted on our website and, we would happy to take further questions on call from you.
- Moderator:** We will now begin the question-and-answer session. The first question is from the line of Jayesh Shah from OHM Portfolio Equi Research. Please go ahead.
- Jayesh Shah:** Nice set of results with the top line growth, but obviously I think EBITDA margin leaves much to be desired. So can you explain what are these efforts to pass on the same to the customers and why should we see another quarter lag? Because I believe you've been indicating in the past that you try to work on a fixed cost, fixed margin kind of model where mostly you should get the pass through as we saw in the last quarter. So what has particularly gone wrong?
- Shalil Shroff:** So, as you know, that the cost on energy has gone up robustly. I mean, our main fuel, which we use is rice husk and, even the monsoon season has been a little, there has been some extra rain, so, to get good quality of rice husk and during this time, particularly the prices go up and we are addressing to ensure how we make sure that this cost within ourselves as a company, we look at alternate fuels, which we are working on as far as, the cost. Yes, our

module of working is very clear with the customer, on how we take it forward. But this time the cost has been a little bit robust. So looking at the goodwill gesture with these customers, because, as always, I've told you, with these customers, we don't look at only one product but we look at long term. And with all these customers, we have a long term contract on a year to year basis what is a growth of business we are going to expect not only from the existing, but the newer molecules. So looking into all this aspect, we, as a management team, along with the customer, we did take a little bit, hiccup on our margin. Having said that as moving forward, we are addressing to discuss with these customers and also look at alternate fuels where, how we can try and address it. But yes, by and large, because of the situation globally, there has been a concern, and sometimes we have to compromise, but looking forward, we don't foresee, we are very confident with the order book we have with the contracts, which are in place, the newer businesses, which we are discussing with the customers. And obviously it's very important, not only pertaining to health safety environment, but now even on energy costs, which we are addressing. So, we are very confident that, between the second and the third quarter, you'll see much better in terms of the top line as well as the margins.

Jayesh Shah: Okay. So, am I understanding correct that it is up to us to work out the alternative fuels and do a bit of cost cutting, but these long contracts are at a prices, which may not be reset at least going forward, or do you expect the price reset to happen by second quarter? And you may be absorbing the cost hikes for the first two quarters?

Shalil Shroff: That's right. Jayesh, so, as I said that, being the first quarter, we didn't expect the cost going so high. So as I said, with the customer in confidence looking at the long term relationship, we also took a little haircut on our margin. And as I said, we are already discussing with them and we are pretty sure looking at alternate and efficiency improvement within the second and the third quarter, we'll be able to address this. In fact, we have already discussed with these customers and we have had them reviewing it and they have also acknowledged it. And I think in the next, between six to 12 weeks, we should be in a position to understand and address it in appropriate manner in where the contract is spelled out.

S. Sriram: Shalil bhai I would like to add one more point, to Mr. Jayesh on question. Some of these calls are actually strategic calls where in some products, we are simply trying to double our market share from where we are today. So as we go in the market and try to capture new markets, it's a strategy call maybe for quarter or two to just get the new customers on board. And that's where we have sort of compromised on the on some margins, which will get restored once we have entry to these markets. So it's a combination of high fuel cost, which we are trying to pass on, and some strategic calls around expanding market share also.

Jayesh Shah: Okay. I suppose these are, this is to try to get the new customers on board is it?

S. Sriram: This is new markets. I won't, I mean, this is new markets with the same, because, it's a contract manufacturing. So we work with the same set of customers, but the same these customers go and capture new market, get new registrations. And as we try to enter new markets sometimes we probably will have to do this just to enter the market.

Jayesh Shah: Okay. And secondly, I noticed that that Lalru, the utilization has dropped from 70% to 53%. So is there a production constraint, or it's a function of demand?

Vinod Gupta: It's a function of demand at the moment, one particular product in Lalru, which contributes significantly to Lalru is volume that product actually last year, that particular product had a crop failure. So there is an inventory in the market. So we see that product coming back in Q3 onwards and hence and that's where we see a slightly lower capacity utilization at Lalru. So it's a short term phenomena, mainly because of one particular product not being available for us during the quarter.

Jayesh Shah: That's useful. And perhaps Shalil brother, maybe you can talk something about the outlook going forward for this year, how confident you are of your targets and any new customer wins or discussions, which some of them were in progress in terms of specific products and things that you've been highlighting?

- Shalil Shroff:** Yes. So Jayesh, as always on various calls I have said, we are very confident, that what we have put the path, as you know, that the supply situation from China to many of these customers is becoming a challenge and not only Japanese, but now we have European US companies contacting us, on how we can be part of their supply chain. So one is, I would break into two parts. One is with the existing customers, as Vinod said that we are looking at more market shares market share to improve, the existing product, and also discussed with them on newer products, which is already ongoing. And two is, tapping new customers. So as I've always informed that in agro, whenever we talk to a customer, by the time, we go on a contract, we go onto agreement. We go on to manufacturing and selling. It takes anywhere between, six months to one year because it's a registration process. But looking at today's contract, the inquiries, the order book, we have, we are very confident that, within this year to next year, we should at least add in another two products, which are sizeable, as I said that, we are not trying to be choosy, but now people have looked at the strength of Punjab. And we are looking at molecules, which are ranging between, \$80 a kilo to close \$140 a kilo and where market size can be anywhere between 300 to 500 tons. So all this is being discussed, has been penciled down. And we are very confident, as a team that, we will go ahead because they have visited our site. They have met our team and they're very happy that this is a way we can move forward and post '23, we expect more and more customers because, as you know, that once the customer base increases, not only with the new customers, what product we do, but we also try and talk to them. So with the new customer, if we start talking a product today, maybe in the next one and a half to two years, depending on the supply chain, we can start talking with them, on newer molecules. So just to give you a little bit on the product side, even on the performance chemical, it has been good. In general, the pharma has been a little slow, but that's temporary phenomena. We are also discussing with customers, like Daiichi Sankyo in Japan. People like Abbot in the US on what we can do on some basic or advanced intermediates. So those talks are also happening because other than agro, which always dominates close to 60%, 70% of our sales, the balance 20%, 30%, we are doing work with our customers, how we can expand the performance chemical division too.
- Jayesh Shah:** So is it right to say that qualitatively your inquiries or pipeline should be at least twice of what it was last year?
- Vinod Gupta:** Yes, maybe a little bit more. I mean, inquiry which comes in and as I've always told, Jayesh, our customers are to whom we discuss who have their own registration. So we work very strongly, people who invest in registrations and also in certain parts, we do not mind participating with them, because this becomes pretty sure because we don't, an agro product is something where, okay, if there is a shortage, maybe, people have various means to import that product, but we prefer to do it through the right channel. And that is the registration channel. So, yes, to answer your question is, there are, more than what we had last year.
- Jayesh Shah:** Okay. So, any more customer wins that could happen say in the coming quarter, or will it take longer time?
- S. Sriram:** Well, we have two strong products, which we have already demonstrated things are on advanced stages, but, I believe close to the year end. We should be penciling down it in a long term agreement.
- Moderator:** The next question is from the line of Ranbir Singh from Edelweiss Securities. Please go ahead.
- Ranbir Singh:** Yes, thanks for taking my question. Sir just a clarity you said, about two products, which would be a sizeable one, that \$80, \$140 per KG. So, can you give some more light, what kind of volume you are expecting or overall, what would be the size of each products in terms of revenue?
- Shalil Shroff:** So, Ranbir as I said, I mean, all agro products go through, first is you make the product which we have done. Then we go through the five batch where we do the impurity profile and then registration. So the market size, as I said, it depends on the product, ranges between 200 to 400 tons. We believe, at least in the first year. So if we are very confident that by next year we have registration in place. So, we can expect anywhere between 30% to 40%, for the first or maybe the second year and then robustically we can go to maybe around, 50% to 60%,

depending on who else is in the market. So in generally when we look at a product where we are backward integrated and you know that Punjab are always good at it, any product which we look at, we try and look at raw materials, more closely. Don't want to depend much from the outside world, but try and do whatever we can in India. So it depends on the product mix on how we are competitive and based on that, we look at the market share, but as I said, from launch to going into full is starting between 20% to maybe 50% to 60%.

Ranbir Singh: And when that revenue would start flowing from this tentatively?

Shalil Shroff: So, yes, as I said, if everything goes, well we should have maybe something in quarter a four, but would be a more visibility in the next financial year.

Ranbir Singh: Fine. And secondly, you spoke about few products where you want to double market share. So, can you give some more light, which products actually, we are focusing to get more market share or double the market share?

Shalil Shroff: So, Ranbir, I mean by and large, agro chemicals, we don't try and pinpoint product name because as all our products are under confidential and long-term agreements. So, yes so as Vinod said, so maybe Vinod, would you like to just add on to what Ranbir is asking?

Vinod Gupta: I think, I mean, see, we don't give product specific information, but these are all product, which have all I can say is that they have very good growth going forward. And also we see a huge potential in different geographies across the world. And these products are also finding new applications in the crop protection market. So, sorry, we can't give any specific information, but, we are looking at a long term where for next eight to 10 years, these products will see some robust growth in the market.

Shalil Shroff: And just to add Ranbir to Vinod, is, one is every a agrochemical has different mixtures. So, the new markets where we are looking at is a different mixture. So and this different mixture has been successful in, I will just tell you it's in the lateral market and, we expect, if the results and everything goes well, the existing product is again, a \$40 a kilo, \$50 a kilo and Punjab today we are at around, maybe 300-400 tons. We can easily double it in the next one year. So maybe you are more better and good in calculation, just to give you a perspective on the way we work, because every product has single way, double way, three way mixtures, which goes into cereals, which goes into like wheat, rice, then it goes into citrus, like oranges, pineapples, bananas, like, for example, in places like Guatemala, Latin market where our exposure has been there but it's not that big, what we have in Europe and the US. So, that's the market, which we are going to, which will bring in tremendous, energy and sales towards the existing product bunch in Punjab.

Ranbir Singh: Yes. I think your commentary was, in a context that prices, we may not increase because the volume, the market share, we want to grab more market share. That's why that, I thought that probably that is related to, few products. So, no problem. If you are not giving the name, but in agro chemical, just, I wanted to understand if you have that product in your mind. So what's your current market share and which market, whether in India or international market we are talking about? So for example, if you have 10% of market share for that particular product, and that we can expect that 20%, so that, kind of highlight, you may not name the name of the product, but, just a sense that what is your current market share of that particular product and where they are going to be, if we retain our price constant?

Shalil Shroff: So, Ranbir this is a herbicide. The market is close to 2,500 tons, globally, Punjab right now, we are only at close to around 20%, maybe a little less than 20%, and we want to get this to close to 40%. So I'm sure this answers, your question. One, as you said, is, the raw material, as you know, that because of the war situation, everything between last November to maybe this quarter, the raw material price has been a little fluctuating, because China also had some lockdown. So it's not that, alternate supplies were also there, but, every company, whenever there is shortage, they always want to make some money, not doubt with all our suppliers we have a long term contract, but we see that the tapering of raw material prices have also started. So you'll see that within the second, third quarter, the margin towards, what we compromised a little bit, will start improving in a good manner.

- Ranbir Singh:** Okay. That's good. And just a last one, if I could that, of the total order book currently, the INR 1,500 crore order book we are seeing how much is in a nature of long term contract and how much is short term?
- Shalil Shroff:** So, Ranbir, generally, as we have always said that our agro are all, 65% of our sales is on long term contract, which is on a five year, then automatically renewed for the next five years. And then we have the balance percentage 35% or 25% of our sales is related to performance chemical. There also, we work with customers. So by and large, if we see the journey moving forward, we don't see any, if or but for many customers, but in fact, they're looking at not asking for one but they're asking for three. So, if they're asking for say 50 tons shipment in a month, they want to increase it by 20, 30, 40% above to maybe 70, 80 tons. So that's where we want to ensure, because please understand, as I've always said that we work with customers where our product is registered with them as a supply source. So whenever we, as Punjab give any commitment, we also need to go back between our suppliers and our production to ensure that the supply is in time.
- Moderator:** The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.
- Yogansh Jeswani:** Sir couple of questions on your expansion that we have announced for INR 150 crore so in this, firstly, are we doing this at our Derabassi plant and have we received the EC for the same sir?
- Shalil Shroff:** Yes. So for both our plants, we have received all the necessary permissions.
- Yogansh Jeswani:** Okay. And sir in terms of, with this CapEx, this will be coming in CapEx or is there a couple of phases for this CapEx?
- Shalil Shroff:** Yes, so I mean, one is, we break it into two parts. One is the newer business where obviously we need, to put in CapEx and to expand that, which is ongoing and the other is to relook at our existing assets to make it more efficient, make it more environment friendly, because please understand that HSE health safety environment is also very, very important. And we as a Shroff Group within the companies have been, always taught by my great, great grandfather that, ensure that the safety towards the plans towards your people working is more important than profits. So that's what also we put in our strength to improve that. So these are the two parts where we spend money on.
- Yogansh Jeswani:** So, what I meant to ask was, the timeline of these CapEx is coming on stream, will this entire CapEx be in one single phase or it will be divided into couple of phases, like phase one, phase two?
- Shalil Shroff:** Yes. So it's basically divided into, between three to four phases. It's a new product and then within the existing because, where we need and nowadays to get sometimes supplies also within the customer because everybody, a supplier, then he relies on other components to get to his plant. So as I said, it's between three to four phases.
- Yogansh Jeswani:** Understood. Sir, secondly, like you mentioned in your remarks and you answered the previous questions as well, that we are now looking to add on more customers. So if we look at FY22, I think, probably more than half of our business came in from single client, that was UPL. And even the EC document that we have filed a lot of the names of the product that we see, we see that UPL has a very significant, presence or dominance in those products. So going forward say in next three, five years, what is the kind of dependence that we see of our business from UPL? And also, what are the products that we are doing, for other clients, if you could just share, if not the product specific, but if you could just, give in some more color or more clarity on the three to five year vision, how this mix in terms of product and client concentration will look like?
- Shalil Shroff:** Yes. So, existing yes UPL is a big company. They have taken Arysta -- So they also need supply chain. So, either they look at Punjab or they look at others, whoever are their vendors. Having said that, between now to three years, we should look at UPL, going down to maybe 30% and between three to five years to around maybe, between 25% to 30% please understand that

UPL is a global company. They always look at supply chain and we being part of their journey, not because of the family name, but it's very transparent and a very professionally driven drive, which we do between the companies. And beyond that, as I said, that we are adding more and more Japanese customers like, last year we had three, we have another two, which we are discussing, and we are very hopeful of taking this forward. So the pie chart dependability on your direct question on UPL will definitely drop, as I just mentioned. And, geographically we will try, as I said, we are working with more and more Latin and North American companies and Australia, which is another market, where we are already in discussion with a customer within the existing products, with the same product, there is another product which we can do, which also brings in a more additional revenue towards the business and customer profile.

Yogansh Jeswani:

Sir if I may squeeze in one last question. So Rallis was a big supplier to Korea for Metconazole. However, we have now broken into this supply chain. So could you, talk a bit about how did we come about doing this? Are we able to offer lower pricing or is it because the demand is growing? And so there's a scope for another player to enter the supply chain. If you could just share your experience through this?

Shalil Shroff:

Well, I would not like to comment on any customer, like you said, Rallis. Yes, Rallis also does some job work for the Japanese. Moving forward we have a very wonderful relationship with this Japanese company. We are already discussing with them on another product. In fact, me and Vinod would be there end of the month to meet them if everything goes well with COVID. Because the cases in Japan are a little bit increasing, but anyways having said that, so yes, I mean, we believe, this year, from last year, we should double in terms of production, what we are supplying to them and moving forward in the next two years, again, as I said, we have a good relationship, it's up to them, to decide what they want to take apart, but we believe, that this market of this product is, gone back into reregistration in Europe and everything, is fair. So, as I said, this year, we are doubling, our sales in terms of, production and moving forward, we should at least, increase it by another 30% to 40%. In the next two to three years.

Moderator:

The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya:

Sir number one question is if I see a top line growth in this quarter is 29%, but if I see the volume growth, even in the Derabassi plant is around only 3% on a year-over-year basis, as well as Lalru obviously you indicated, because of product issue, the utilization was low. And now you're talking about doubling the overall volume in this particular year as in whole. So, I mean, just wanted to understand a little bit more on this. So first thing is that, is that all the growth which we are seeing today is the pricing growth? And when you are talking about doubling the production, in this year, so please, if you can elaborate more on this?

Shalil Shroff:

Yes so as I said, that the production will double, which will start from the first quarter, by the time the plant, we did maintenance and we fill the reactors. So by the time the product comes out, it takes the cycle of between 25 to 30 days. So you'll see in the quarters, the second, third quarter that volume will come in.

Amar Maurya:

Okay. So basically, if I'm not wrong, sir, the overall production in '22 was around, something around 25,000 metric tons. Right?

Vinod Gupta:

The first thing when we are talking about, say doubling some market share, that is not for all the products that is for two or three products. And, these volume growth is dependent on the product mix because our quarter to quarter mix, product mix is significantly different. And that is where volume growth is, not really a right barometer for assessing our asset utilization because in one quarter, depending on top season, we may have, we may produce the different products.

Amar Maurya:

So let's say whatever is the reported volume growth I think the reported volume growth in FY22 was around 25,000 metric tons. And, when we are seeing that, a couple of products are going to double the volume. So what should be the volume growth in '23, then?

- Vinod Gupta:** At an overall company level, we probably will look at the volume growth on year on year basis, anywhere between 12% to 15% or maybe more I mean, I have not calculated exit number, but it will be minimum 15%.
- Amar Maurya:** Okay. So basically, is it fair to assume that all the new products which we are adding or all the products where you are trying to double the volume are high value products? That is why we will see a probably lesser volume growth and the revenue growth would be higher?
- Vinod Gupta:** Yes. I think all the molecules where we are focusing are higher.
- Vinod Gupta:** Yes, absolutely.
- Amar Maurya:** Okay. And secondly, sir, like you, as you indicated that, the margin pressure, which is there in the current quarter will subside going ahead, let's say in Q2 and Q3, but then it is if, let's say if the power cost doesn't moderate, I mean, still you'll be able to pass on the prices because I mean, going by the global scenario, it doesn't look like that, the power cost and the coal cost, all these things are going to moderate very soon?
- Shalil Shroff:** Yes. So as I said, the first quarter, I mean, I would say last financial year and this quarter, the prices went dramatically and you're right. Maybe there would be a little bit correction, but not so much. And that's where I did mention, I think, Jayesh or somebody was asking a question and I said that we are already in discussion with our customers and they are on board. They understand it very much. And, we being a strategic supplier to them, so we are addressing it and we are pretty confident that within these second and third quarter, we should be able to get back to our run rate in terms of margins.
- Amar Maurya:** And what would be sir our overall '23 revenue guidance?
- Shalil Shroff:** Well, I really don't know whether I can reply to this question, looking at today's, different SEBI laws. Because my Company Secretary allow doesn't say much, but I would just say that, last year we did 900 plus. So we expected a growth from 670 to 900. So I believe we should be within that range or a little bit more it depends again, please understand that all our product has registration issues. Like even last year we had a little problem because Australia was under lockdown because of COVID. So let's cross fingers that nothing new comes in, where there are delays in terms of registration issues. But, we have been addressed with, I mean, we have been discussing and addressing to our customers and we believe we are very confident to take this forward.
- Moderator:** The next question is from the line of Rohit Ohri from Progressive Share Brokers Pvt. Ltd. Please go ahead.
- Rohit Ohri:** Sir, couple of questions. Sir starting with the strategic growth plan presentation, which we've been talking about since last three or four quarters or so. Sir there is no update on that. It wasn't in the AGM yesterday nor have you updated today. So, what is it that is causing the slight a bit of sluggishness over here?
- Shalil Shroff:** There is no sluggishness, in fact we are working on it and we'll soon be sharing it, before the third, before the second quarter.
- Rohit Ohri:** Okay. Sir, another question is related to the Pune property, not being mentioned in the presentation. I had raised this query, some quarters ago as well. But we don't seem to be mentioning that. Are you looking at pairing of that asset? And, since the capacity is quite high are you looking to move to some other property or maybe shifting the operations from there from Pune?
- Shalil Shroff:** No Pune, Anyway, Sriram just look into it that, next time we put that as a part of our presentation, but yes, I mean, the robust in terms of the phosphorus chemistry, as you know, that, we supply the higher asset to Coke and Pepsi, et cetera. So that business is promising. And obviously right now, as I did mention, I think a couple of quarters back that we believe that this business can easily go to two to three times the size. So we are definitely looking at

the site, not only for this, but on the overall expansion. So that also, we are on discussion and we believe we were to narrow on one thing but due to some issues in terms of, authorities, we were not very confident that we would get that. Otherwise we would've announced it during the AGM that the site three has been ready, but we are already have two or three in my, and maybe shortly between the second and third quarter, we should do this announcement.

Rohit Ohri: Sir Derabassi is running at around 85% capacity. I'm taking the average and assuming that, Lalru apart from this quarter has been running at 65, 70 and Puna at around 95. So would you like to share anything on the growth CapEx plan, if at all you have chalked it out?

Shalil Shroff: Yes, so, the basic where we are going put our energy is going to be in Lalru and definitely, as Vinod did say that it's a product mix and there is one product, which we are already selling and we believe we can double it and that we will do it at Derabassi. So it's a mix, but, majority of the growth towards the performance and agro would come from the Lalru side. And, Puna, as I said, is a little stagnant because it's a very small site and we are already, as I said, scouting and shortly once we have that site, we will definitely take this in a bigger way on the asset supply chain.

Shalil Shroff: Okay. What sort of investments are we looking, for these performance chemicals at Lalru site?

Rohit Ohri: So, I mean, as I said that, we are doing an expansion of around INR 150 crore, so within the existing infrastructure which we have with few changes, plus minus we are working on it, but exactly we believe that the CapEx would go up a little bit, by another 20% or 25%.

Rohit Ohri: I draw attention to this line from the annual report where the Chairman has said that, you're exploring horizontal expansion, as well as, vertical integration along the value chain. If you can just elaborate a bit on this line, what sort of vertical integrations are we looking at?

Shalil Shroff: We look at two things. One is, the existing products where it's more on the performance chemicals side, where we look at a molecule where we are selling, can we bring in added value? So for example, if that product is a \$1 or \$2 or \$4 product, can we add value to bring it to maybe \$10, \$15 and \$20? So that's where our thinking is. And we have already looked at two products again, these are fine chemicals. So it takes time for the performance, for them to ensure that it works within their product, whatever they are making. So we are hopeful that, maybe not for the second, but by the third quarter, that would come in. Maybe the volumes are less, but price is high, but the contribution is much far better in terms of what we were doing with the single product. And then when we add value to it.

Moderator: The next question is from the line of Manish Jain from Moneylife Advisory Services. Please go ahead.

Manish Jain: I wanted to know the progress of the three contracts Nippon Kayaku Singapore based company and the domestic one, how are they ramping up?

Shalil Shroff: Yes, so, these contracts are absolutely alive and kicking and, as I said that the Australian, I mean, the Singapore where we had this contract for the Australian market, we had some delays in registrations and, again, as, there were some weather situations. So we believe from the third quarter, the product should go, it should start moving from the third quarter.

Manish Jain: Secondly any customers facing any headwinds regarding demand due to the situation in Europe and in the world?

Shalil Shroff: So by and large, we have had overall review, which we generally have it with the customers again, both me and Vinod were in Europe a couple of months back and we met them and we always talk to them. And so far they are looking at more and more materials. So I think the agro site, yes, I understand where you're coming from the climate situations. But we don't foresee any problems so far, as we discussed with our contract customers and they're very confident.

- Vinod Gupta :** As effect of that is still, we are in the process of assessing as to how will that, impact the demand. So we have asked our customers to give, do an assessment and come back, but so far the demand continues to be robust. And, we are busy in terms of delivering the volumes.
- Manish Jain:** Okay. Lastly, what is the total CapEx plan for FY23? I wanted to know the total CapEx plan for FY23?
- Shalil Shroff:** Yes. So, as we have said that we have a total CapEx of 150, out of which we have spent last year, some money and even this year we will be spending. So anyway, it depends, as I said, it is in different phases, so this year should be anywhere out of that would be anywhere between 20% to 25%.
- Moderator:** The next question is from the line of Pritesh Cheddha from Lucky Investment Managers. Please go ahead.
- Pritesh Cheddha:** Sir just two clarifications. One on the gram side, you are supposed to add two products in '23. So have those been added and supply started? And second in your growth forecast, somewhere you mentioned that, business is dependent on registration. I'm just trying to clarify whether the growth for FY23 also depends on some registrations, which are awaited or growth for FY23 is dependent on these products where the registrations are available and any up and down is just because of the offtake by the client?
- Shalil Shroff:** Yes. So your first question is, yes, the two products, one product is already started. Supply situation is on. The second one we expect the registration maybe, during the third or the fourth quarter. The second question you asked is, yes, registration is a key issue as I was just mentioning that, sometimes the registration happens, but because of COVID like in Australia, we were delayed by almost 12 to 16 months, between, '20 to now. So, it very much depends certain registrations take very quickly, but to answer your question, as far as our business plan for this year, we are not that dependent on the registration, we believe what we have planned for the financial year of this year. We will, we are very confident to achieve that.
- Pritesh Cheddha:** Okay. The other accompanying question is in your past calls, you used to mention that, usually, the lag in your, raw material is passed with the lag of one quarter owing to the nature of the business, is that whole true or there is any deviation there?
- Shalil Shroff:** You mean on the raw material?
- Pritesh Cheddha:** Yes. Material side and pass through to the customer is a lag of a quarter based on inventory plus pricing, methodologies and everything?
- Shalil Shroff:** Yes. So, as we said that the raw material prices, of many between last year and this quarter has been robust, we see that it's tapering down. And generally we discuss with our customers because we have this contract as a part of, our discussion. So we worked with them closely, but in some products, maybe especially on the first quarter, on the raw material side, we definitely went A to A, but in certain market size, maybe in the margin, we did work both together to ensure we get that market share. But, having said, on raw material, it's very eye to eye. So, because raw material, if today is 1 and becomes 1.5, I mean, any company will never take that haircut because raw material is a straight loss deal. So raw material is absolutely eye to eye.
- Pritesh Cheddha:** Okay. And when your incremental product basket is a high priced one, based on whatever bifurcation you gave on volume and price growth for FY23, and these products are CRAMS based. Is it fair to assume that inherently there should be a gross margin expansion incrementally for the company?
- Shalil Shroff:** Of course.
- Pritesh Cheddha:** And inherently there should be an EBITDA margin versus what we have seen in the past three of four years?

- Shalil Shroff:** Yes. So, as I said, I mean, looking at the past performance of Punjab Chemicals, in terms of customers, and now that in the last two, three years we have done well, people have seen our strength. People have seen, our new management team, which has come in, so that is bringing in and now, we are more confident. So wherever we look at where we were single digit, we went between 12% to 14%. And now, as I said, gradually between, this year to next year, we are looking between 16, 18 to 20, going forward post '23, '24.
- Pritesh Cheddha:** It will be very helpful if you can tell us CRAMS, how margin differential is versus the base business in let's say it is 1.5X better profitability than this business, without giving out the number we will comprehend ourselves.
- Shalil Shroff:** I mean, you guys are more expert in this than, me or Sriram or Vinod, but maybe Sriram would you like to comment because I don't want to comment something and then.
- S. Sriram:** Sorry. I mean, your question is quite good, but we won't be able to give any precise answer, but, definitely your CRAMS business will have a better margin.
- Pritesh Cheddha:** You do not want to call out the differential.
- Shalil Shroff:** See, I think, please understand, in CRAMS contracts, it depends on product to product. It depends on whether it's a three stage, four stage, five stage, but having said that, by and large, the CRAMS business as rightly Sriram said, that's where is the growth, which Punjab looks at, and that's where our contracts are in place. And that's where we are very confident and we have already discussed with the customers, and we believe between the 14% to 16% we should gradually move to 16%, 18%, and then post, because there are another two products, which we are under discussion, and that will really change the product mix between 18 to 20.
- Pritesh Cheddha:** Okay. Just sneaking in one more this 18 to 20 is FY25 in your opinion or FY24?
- Shalil Shroff:** It depends on the product registration. We believe between '24-'25, in between, we should have the hiccup of this.
- Moderator:** The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** First question is pertaining to our capacities at both plants. So at Derabassi if I calculate 85% utilization for FY22. The capacity comes to about 28,000 and based on the 87% capacity utilization for Q1, it comes to about 33,500, is the number correct?
- Shalil Shroff:** Well, unfortunately yesterday I did travel, but on capacities, I think Sriram next time maybe we can have a little better clarity or if you have something you can just highlight to the gentleman.
- Moderator:** Sir, we have lost the line of management. Please stay connected while I reconnect them.
- Shalil Shroff:** Okay. So anyways, you are with me. So, the existing capacity, which we have, which you mentioned based on that this year, we believe we should grow by around anywhere between 14% to 16%. There is this one more product if that clicks in, which would come in but the final flow would be between '23 post so it'll be April of '23, which will be in the next financial year. And that would add another 8%. So we should be between, and we are very confident that we will be able to get that part of the contract, because it's an existing business, which we already, so it should go to around 24%.
- Rohit Nagraj:** Sorry. My question was, pertaining to the production capacity. So I understand that, we'll be growing by say 12% to 14% in terms of volumes and if new products are introduced.
- Shalil Shroff:** That's what I answered. I mean, you mentioned some 32 or whatever, based on that, you'll go to 33. So that's what I said, today's existing production is within this year we should be the first year, because of one or two products, because I talk as a company on the whole. Yes. I'm not talking this thing. So, we expect, as I mentioned, that is in terms of the percentage. Yes.

- Rohit Nagraj:** Right. Sir again, second question in the slide 14 for Lalru we have said that capacity added in FY21 is 3,000 metric tons, but based on the utilization of FY22, the capacity again comes at say 1,900 metric tons. I just wanted a clarification? Maybe I can take it offline.
- Shalil Shroff:** I think, maybe you didn't listen, as Vinod did mention that there was this product in Lalru basically, where the registration issue had come in place, but because of the market and stock piled up at the customers, we expect this to start, post quarter three.
- Rohit Nagraj:** Sure, and just one last clarification, what was the percentage of revenues coming from UPL in FY22?
- Shalil Shroff:** This year we, I think in '22, we were at close to around 36% or 37%. I think we can take one more question and then, because, 12:30, me and Vinod I have another call with a customer.
- Moderator:** Sure, sir. Ladies and gentlemen, this will be the last question, which is from the line of Rajesh Jain from NB Investments. Please go ahead.
- Rajesh Jain:** Good afternoon, sir. I have two, three questions, so I'll read out very fast. Sir we had been doing around INR 500 crore of top line since FY14 with an exception of FY19, where we did around INR 600 crore or so then, the top line revenue suddenly went to INR 678 crore in FY21 and, we have done INR 933 crore in '22. So my question is, what are the reasons for this jump in revenue since last two years? Is it only due to China plus one strategy, or is there any other factor that you can attribute?
- Shalil Shroff:** So, basically two aspect, one is that, when we were at that INR 500 crore, as I said in agro, every product takes time. So whenever we sign contracts, so today, if I sign a contract, by the time we get the registration production, it takes, it depends on the product cycle. So it's anywhere between eight to 12 months. So basically the revenue growth, which has come in is for newer products more and a little bit from the existing product capacity. I hope that replies to your question, because I made a little short.
- Rajesh Jain:** These new products that you could able to get the business is it purely because of China plus one strategy only?
- Shalil Shroff:** I would not put everything onto China because even today, I mean, we also don't like to buy, but we also buy, I mean, not we as any Indian company, we people also buy from China raw materials. There are one or two products, which we have not yet taken into our portfolio where people are looking at China, one policy, but by and large, the projects which we have done are newer innovative products. And it's not because, China was there, and they want to look at alternate. It depends on that customer, but yes, moving forward, there are two products which we are looking at China one and that would reflect, but by and large, between 500 to 900, what we did is, purely within the existing contracts, newer customers, understanding the new management and our plant safety, et cetera, to ensure that we also supply them quality product and in time.
- Rajesh Jain:** Okay. So just, since you said about the product currently, we have around 11 products, we make from the two plants, which investor presentation shares that data.
- Shalil Shroff:** I'll just stop you here. The reason is, there are certain products under contract, which we do not mention. So it's more than 11, but yes, you may continue because what happens is if there is a confidential agreement with the customer, then we are not allowed to disclose the product name.
- Rajesh Jain:** But is it possible to tell us how many numbers are there other than this 11 in our company's product profile?
- Shalil Shroff:** Please understand this is very confidential information, but just to add it's around four products more.

- Rajesh Jain:** No fine. So what I wanted to ask you was that out of these 15 products that we have currently, how many of them were new and whatever this increase in sales was given by these new products?
- Shalil Shroff:** So within, the next, in the last three years, we have added close to six new products.
- Rajesh Jain:** And how much they have contributed to the sales sir?
- Shalil Shroff:** You can yourself take it we were at 500 and today we are at 960. And that also all these new six products out of that three, we have not reached to their production capacities because, COVID was there, there were blocks of challenges. So, take that also, we had to take that also into consideration.
- Rajesh Jain:** Agreed. So that means these six new products have contributed around INR 300 crore to INR 400 crore of additional that is what is the assumption correct?
- Shalil Shroff:** Absolutely.
- Rajesh Jain:** Okay. Sir my second question is, again, with the increase in sales, our EBITDA margins for the last two years also have gone up. So is my thinking is that one, the capacity utilization went up and second, you would have these six new products, maybe they have a high, they are maybe a high margin product, is these assumptions are right?
- Shalil Shroff:** You're buying on.
- Rajesh Jain:** Okay. No, is this margins, I think you have already given 18% to 20%, so going ahead also this is sustainable?
- Shalil Shroff:** Yes. I mean, the margin side, but, maybe in, it depends on the product mix. So your statement was this absolutely.
- Rajesh Jain:** Okay. So my last question is about the land utilization. Sir you have already given in the investor presentation about Lalru, how much additional spare land is available. Do we have similarly at the Derabassi also any spare land?
- Shalil Shroff:** So in Derabassi as I said, we have two blocks, which can definitely bring in good revenue, sales, to that plant. But by and large, Lalru has more space. And as I did mention, during the call today that we are already, we were on the finalization of one site, but because of some technical hiccups, we could not. So we already are in discussion with two more sites and we are hopeful that between Q2, Q3, we will bring in. So that will also bring in more, energy towards the newer business expansion, which we're looking at because the existing customers today, like I said, one customer we do with Nippon Kayaku. Nippon Kayaku close to does \$3 billion to \$4 billion in agro. And we are only doing \$30 million, so you can see and they're very happy with us. They visited us, we are visiting them. So we are already starting to discuss, and how we can expand on a year to year basis, between now to say three years down the line, today we are doing 30 million. Can we take this to by 30%, 40%, 50% in the next two to three years?
- Rajesh Jain:** So that means, we are looking at the land near Puna or near Derabassi sir that clarification?
- Shalil Shroff:** We are at the moment looking somewhere, between Gujarat and Maharashtra.
- Moderator:** As that was the last question for today, I would now like to hand the conference over to Mr. Nachiket Kale for closing comments.
- Nachiket Kale:** Thank you everybody. Thanks to all the participants on the call and I would also like to thank the management for sparing the time and answering all the detailed questions. For any queries, you can get in touch with us, Orient Capital, we are the investor relations advisor to Punjab Chemicals. Thank you so much.



Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Shail Shroff: Thank you.