"Punjab Chemicals and Crop Protection Q2 FY23 Conference Call hosted by Antique Stock Broking"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Punjab Chemicals & Crop Protection Q2 FY23 Conference Call 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Manish Mahawar. Thank you and over to you.

Manish Mahawar: Thank you Mike. On behalf of Antique Stock Broking, I would like to welcome all the participants from the call of Punjab Chemicals & 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: First of all thank you so much for all of you getting your time to attend to our Q2 call and I hope the Diwali was very good. I will hand it over to Vinod. He will just give you a brief run through on the Q2 results and the business of Punjab Chemicals.

Vinod Gupta: Good morning everybody. This is Vinod Gupta – CEO for Punjab Chemicals. First of all welcome all of you to this Q2 Earnings call and hope all of you had a good festival time and wish you all a very Happy New Year as we call in Gujarati. The Q2 basically once we have had a monsoon which was slightly erratic which basically had a challenge on domestic agriculture market. Obviously, this is combined with the global macro issues like high energy prices, inflation challenges in major economies and also in some economics there is a slowdown which is resulted into a very challenging business environment.

Despite all the challenges I am very happy to report that we have grown our top line by about 33.4% as compared to Q2 of FY22 and our export sales that is international sales has grown by about 65% over Q2 of FY22. So, we have shown robust growth despite all the challenges. The business environment we have lot of headwinds right now. In order to meet these headwinds, we have adopted a very flexible approach to business to make sure that we sustain and increase our market share working very closely with our customers. Now, this has been achieved mainly by adopting a very flexible approach and accommodative approach on pricing. Also, we have accelerated efforts towards improving our efficiencies and technology improvement and we have worked aggressively to tap new markets also mainly South America. We also continue to build our organization capabilities in terms of bringing in new talent, bringing in new technologies and also we are increasing our capabilities in operations and product development. These are long term initiatives basically to create a robust and growth in oriented organization.

While our business continues to remain resilient despite all the challenges in external shocks, our margins have been affected as you must have seen the regional results. This is mainly because of inflationary pressure on raw material cost, pricing pressure in certain markets and the overall product mix. At the same time there was an impact of carryover of high-cost inventory from an earlier period and this is basically getting translated to markets and this is exerted pressure on gross margins.

Consequently, our EBITDA margins also is subdued mainly because other expenses like energy cost, fuel cost, freight cost and also business expenses as things have opened up we have started travelling to various markets to grab more market and more products. We have continued to invest to increase our capacities of some of the products and also we are aggressively investing in renewing our assets because some of our assets are 30 year, 40-year-old so that we basically make sure that business is sustainable and this is all funded by internal accruals. We are meeting a clear two-way communication with our teams and channel partners and a joint effort is made to improve our margins. We have immense confidence in the strong trust in relationship we have developed with our customers and channel partners. So, that is the broad outlook of business and business scenario for the Q2. I hand over now Dr. Sriram to walk you through more financials and numbers.

Dr. Sriram: Hello everyone, good morning. Thanks for connecting with us on this call today. I am Sriram, CFO for Punjab Chemicals. I will just briefly summarize our financial performance for the quarter. As Vinod has said we continue to show a robust growth in revenue as a Q2 FY23 revenue increase almost 33.4% year-on-year to actually to around 278.6 crores. The trend has been very positive for the year so far. Our H1 for the current year revenue is close to 550 crores which is 31.2% higher than last year H1 FY22. Our international business as Mr. Vinod also is going or increasing tremendously we achieved close to 65.7% as compared to last year the same period.

One of the main concern actually we face a challenge of various global dynamics our gross margins are under some pressure on the raw material front leading to drop in the gross margins which stands at around 35.5% in the current quarter as compared to last year quarter. EBITDA has been slightly or relatively flat in the current year while the margins are lower. We have registered an EBITDA of 31.1 crores with 11.2% of EBITDA margin in Q2 FY23. For H1 our EBITDA stands at 66.5 crores, which is around 12.1% of the EBITDA margins. PAT for Q2 is around 17.6 crores and in the half year we have touched around 37.8 crores. While our profitability is down in the first half we continue to follow prudent financial practices to achieve our strategic growth and objectives and to meet the customer expectations.

With this, I would end my review. We would look forward to an improved outlook in the second half. We can now open for Q&A. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Dhimant from ITI Mutual Fund. Please go ahead.

Dhimant: Just one question again on the gross margin and if you can enumerate because in the last conference call you have mentioned that we are already in discussion with our customers to ensure that we can park on either energy cost or the raw material cost, but this quarter seems to be another kind of sort of water shedding in terms of non-ability to pass on margins or any cost whatsoever, so if you can comment how are we kind of communicating with because here it appears that we have not been able to pass any margins whatsoever that is question number one and question number two on CAPEX you mentioned that you would be undertaking to replace some of the old machinery, so how much of the amount are we likely to kind of expand to kind of replace our machinery if you can just comment on both these?

Shalil Shroff: Yes we did mentioned in our Q1 call that we are in discussion with the customers please understand the market scenario over the war situation, over the cost of fuel has little bit changed, so I would comment that we are still discussing with the customers, customers for Q2 partly few customers have agreed to absorb that cost few of the customers have not, but we are in constant discussion with them and we are very hopeful that by Q3, Q4 we will be able to understand and they will also respect to see that the cost are high. Also please understand that we have also tried to ensure that we do not lose our market share. So, in certain things between the customer and us we have worked out a win-win situation where we reduce some of our cost, they reduce some of our cost so that we at least come to reasonable market and at least we fill the market where the gap is not there. As regard to the CAPEX, which as Vinod did mentioned that we have certain equipments, we have certain of our utilities where we need to put in some money so that we are already working on. We have tried to ensure that all this affects our internal accruals as we have been very robust in our cash flows. So, at the moment we do not have a figure, but eventually we will definitely get back to you, but it would be in the range of between 30 to 40 Cr.

Dhimant: This would be for this year or for the next couple of years?

Shalil Shroff: 30 to 40 Cr is over two years from now till FY24.

Dhimant: Just going back to the first part can you just break it down of how much high-cost inventory are we still kind of carrying number one, number two in any of our negotiation to our contract is it only a volume contract and there is no price pass through whatsoever and number three also if you can help us understand do the contracts also carry plus minus variation for FOREX, so beyond a certain range does it carry FOREX variation also?

Shalil Shroff: So, as regard to FOREX as you know that our import export is quite equally balanced because our export is anyway higher. As far as the customer goals yes we do have every quarter we look at the numbers on FOREX. So, by and large if you have seen in Q1 or Q2 it is not that the company has lost so much money on it is just because of FOREX. As regard to higher inventory at the moment between Q1 and Q2 we have almost liquidated our high-cost raw material which we have got. Having said that we are also discussing with the customer how we see that the certain cost of energy especially energy how we can pass on. So, as I mentioned earlier that we are already in discussion with them and we are hopeful that we will be able to once again sit on the table and take this forward with the customer. So, we are pretty confident that they also understand because please understand that the customer also would like supply change to be strong and that is where we are trying to demonstrate to them that yes we are very strong, we are ready to work with you, we are ready to take certain haircuts, but more on a longer term we need to come back to where reality comes in.

Dhimant: In light of that what would be the more sustainable EBITDA margin that you can guide for at this point in time?

Shalil Shroff: Right now, we are trending which we believe we would be between 14% to 15%, but we are right now between around 13% to 14%. So, I think going forward towards this financial year we should be within this range.

Dhimant: So, essentially you are saying that we will recoup 14%, 15% would be the exit EBITDA multiple that you can hope to regain?

Shalil Shroff: Absolutely and then of course as I always mentioned that we are also looking at more business opportunity, there are more contract so when the product mix comes in that is where we believe that we will go beyond that to maybe between 15% to 16% by 2024-25 and then thereafter we have certain projects because please understand in agri every contract every product we do there is a gestation period for registration that can be between 90 days to close to 1 year to 2 years. So, that is where we are working in important markets especially the statement said that we are looking at South America very aggressively especially Brazil where the registration takes time and we are already our paper, our files have already gone in and we are hopeful that by 23 that we should maybe late part of 23 we should have that registration.

Dhimant: In the power cost we are dependent on a particular kind of fuel so this CAPEX would go towards making it more multi fuel is that understanding correct?

Shalil Shroff: I think we will continue to use the same fuel we are using rice husk as a fuel which is sustainable renewable fuel for us and that gives us an advantage with customers also.

Dhimant: That is what is kind of hurt us in this quarter or may be two quarters it is being hurting us, so would we change to multi fuel?

Shalil Shroff: If you look at the complete fuel basket market has turned very smart because of the information which is getting disseminated easily. So, husk prices are linked to coal prices I mean all other fuels are also in the similar range. Suppose in future CNG becomes available in that range in that area we will definitely consider, but right now that is not available. So, at the moment I think we are at this husk only. Also, as the government policy to procure rise changes we believe that gradually husk availability will again improve as that improves prices should soften. We are watching the market closely is what I can say.

Moderator: Thank you. We have the next question from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Couple of questions number one sir even in this quarter the Lalru's utilization is around about 52%, 53% only, so last quarter you indicated that there was some RM non availability issues, so that is number one why the utilization is low even in this quarter should I go for the second question or you want to answer it?

Shalil Shroff: I think let us take one by one as far as Lalru yes the raw material is still a question mark and please also understand that because of seasonal there has been a delay. So, the product which could have fulfilled that part of the sales has been deferred that does not mean that the order book is cancelled the order book is just deferred to Q3, Q4.

Amar Maurya: So, Lalru's utilization will come back to let us say 74%, 75% levels in Q3, Q4?

Shalil Shroff: That is right.

Amar Maurya: Secondly, in terms of the revenue visibility like you know we normally give the number of 1,500 crores kind of order book, in terms of the revenue visibility and I believe in last two, three quarters we have been discussions with many new clients, new products and all those things, so is that the 1,500-crores order book number have improved materially or it is still the 1,500 crores number?

Shalil Shroff: The 1,500-crores order book was for the three years. So, beyond that of course we have already signed a few more contracts and I did mentioned that you know during Q2 call we will come back with some numbers, but as there has been certain delays, there has been certain market rectification. So, we are working back on our books, but as far as moving forward yes so 1,500 crores has increased to 2,500 crores in which we will definitely come back to you in terms of what are the projects which are coming in and how they will flow in between the next two to three years.

Amar Maurya: In terms of the plant levels, I mean is there any technical issue why the utilization is not coming or is this just an RM issue?

Shalil Shroff: As I said that as regard to the Lalru part that it was the RM issue. Number two there was also a delay in registration and by the time we got the registration the market for that particular country was delayed in terms of usage. So, as I said that the order book is there it only that it will flow in Q3, Q4.

Amar Maurya: Lastly like you know I had requested a couple of times to the management that why do not we plan a plant visit for both of our facilities for all the investors, not only for us?

Vinod Gupta: The question you have been asking on this for quite some time we will work something out to over that because as you should know that we are in a very hazardous kind of manufacturing setting so that is the reason managers want to have a very safe environment there so that is the reason we are kind of reluctant to take your advice, but for your point taken we will look at it.

Shalil Shroff: We will definitely work out in fact we had because COVID has opened up so we have had lot of visitors coming to us auditing because you know from a Japanese to an European to an American they have not come so in fact me and Vinod have been juggling around how to get them properly balanced even this week we have three Japanese companies visiting. Next week we have Israel visiting visitors. So, we will definitely look into it and we will definitely plan it during December because December the weather is also nice in Chandigarh and we will organize it properly to have this. So, we will come back to you shortly soon with this reply.

Moderator: Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, I wanted to check on two things the absolute revenue number is doing very well, just wanted to understand what is the progress on CRAMS within that in a half yearly basis because that is the biggest growth driver for us and when I have to understand the gross margin which of the business area is the gross margin pressure coming from because if our growth driver was CRAMS and CRAMS is where was a higher margin business and more back-to-back. So, in order for our better understanding if you could give a slightly more detailed assessment on which part of the business is seeing gross margins?

Shalil Shroff: So, as far as the CRAMS business goes as you know Punjab Chemical we are the leading supplier and we want to be one of the leading supplier to many multinational companies and this robustic growth is there. Everyday there is inquiry, every day we discussed with various customers with the existing as well as new. So, that business will be definitely the driver towards moving forward. Also, what we have done is that in the next couple of years there are lots of products which are getting off patent. So, our R&D is now pretty strong. So, we are also looking at innovation within ourselves that what our R&D can bring in, products where we do not only rely on the CRAMS which of course is a driver, but also within ourselves what we can do for both international and domestic market. So, that is where the second driver will come in. As far as the margins are concerned as we have already said that there is pressure from both market as well as between us and the customer. So, that is where we have discussed and start with them that we do not want to lose the market, but let us try and rectify in both areas where we as a supplier and they as a customer how we can work as a win-win situation and that is where we have seen that there is some pressure on the margin because certain raw material prices if you see over the years have gone very high and gradually that dip is coming in. So, we are very hopeful moving forward things will fall in place.

Pritesh Chheda: Sir my question was which part of the business any specific part of the business seeing margin pressure because see we have domestic AGCHEM supply then we have the export within which we have the CRAMS and then we have the cola company supplies, any part of the business seeing gross margin issue or it is across the board?

Shalil Shroff: I would say if you see our phosphorus derivative which we supply within Coco-Cola, Pepsi and others so that is where we have had a little bit of pressure because at that time China was not very aggressive, but again having said that with the policy which many companies have adopted that they also would like to have a second source and we are part of it. So, that is where we have seen a good margin drop and we believe over the next quarter or maybe the beginning by next year we should not go back to where we were, but we should come between that 16% to 18%. As far as agri in the domestic market there has been a little slowdown so that is where the margins have also been in pressure, but by and large internationally with our CRAMS customers within Japanese, Europeans it is quite fair only where on a product by product depending on the market, depending on the situation to grab that market we have put it down. So, on the CRAM I would say close to 20% where we have taken a little bit haircut on the margin, but we are pretty sure that we will go back to the numbers which we have been talking about.

Pritesh Chheda: The 14% margin that you mentioned to one of the participants for FY23 14 to 15, so you will recover a bulk of your margin in H2 that is what we want to point out?

Shalil Shroff: So, today what I am trying to say that is where was our plan, but because of the cost high and the raw material situation we believe we should achieve that, but I would put it would be between 13% to 14%

Vinod Gupta: I will add one more point so I think what we are saying is that effort is toward going through a sustainable of 14% to 15% and maybe slightly higher. Now, yes in the interim period if there are some adjustment required that will continue.

Pritesh Chheda: And sir if I have to track the CRAMS progress I have to track the Lalru capacity utilization, is it correct or am I wrong here?

Shalil Shroff: Yes, I mean you can because we have also space in Dera Bassi as well as Lalru. So, yes eventually it would be the larger part would be from Lalru.

Moderator: Thank you. We have the next question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, over the medium term earlier we have guided 16% to 18% EBITDA range, so are we still holding on to that or is there any downward revision?

Shalil Shroff: I mean as I said that is where we will eventually be there with the new product and the new business coming in. As I said the registration process has been a little bit delay. So, we believe our approach is to go back to target at that 16% to 18%.

Vinod Gupta: Only thing is ride is a little bumpy that is all I can say. So, we may see some bumps in between, but we are working in that direction.

Anurag Patil: But the target is still FY25 or it is beyond 25 you are saying sir?

Shalil Shroff: I would say FY25.

Moderator: Thank you. We have the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Can you give us the volume growth that has happened in Q2?

Shalil Shroff: In volume in terms of product.

Bhavesh Chauhan: Yes absolutely.

Shalil Shroff: So, on the agri sector especially in the herbicide and fungicide sector we have grown as I said to get newer markets where especially in Latin American blocks South America.

Bhavesh Chauhan: But it is possible to quantify how much the sales growth was very strong, but between volumes and price if you could quantify?

Shalil Shroff: Sir if we have to compare like-to-like we are about 15% growth.

Bhavesh Chauhan: And sir do we still maintain 1,500 crores of sales guidance for FY24 that they have been talking about?

Shalil Shroff: Yes very much may be beyond that also.

Bhavesh Chauhan: And sir beyond that actually in a previous quarters you have been saying that we will come out with a plan to talk about sales growth beyond FY24 so when can we expect that?

Shalil Shroff: As I said that we were planning to I mean role it out in Q2, but we should be anywhere between before Q3 or Q4 we will do that.

Bhavesh Chauhan: Sir lastly we had said that margin of impact because of high-cost inventory and I believe that the commodity price have more or less come off in the last 3 months, 6 months, so we are likely to see significant margin improvement in Q3 right?

Shalil Shroff: Yes.

Vinod Gupta: I think the statement that commodity prices have come off it is not 100% correct because each commodity is behaving differently depending on international market. So, I think that is where we see changes from time to time, but overall, I think we will see the advantage of any price correction in our margins.

Moderator: Thank you. We have the next question from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Sir, couple of questions from my end one is if you can talk about our new product that you have been very bullish about like Singapore customer, Nippon Kayaku etc., how are they scaling up?

Shalil Shroff: The product which we do for NK that product as you know that the gravity of the business is much higher, but registration is as and when the registration are falling in place. So, we believe the potential of this product, which we believe would have come this year unfortunately because of the COVID and certain delays in few markets registration has been delayed. So, we believe the full potential should come in between 23 to 24.

Ayush Agarwal: And the other product for Singapore customer?

Shalil Shroff: With that also as we said the registration came in late by the time the season was deferred and there also would fall in during 23-24.

Ayush Agarwal: And sir my second question is on our expansion so I think at Dera Bassi we are already running at 85% plus capacity and we are talking about a huge order book jump, so what kind of capacity are we creating apart from doing replacement of our current asset, so can you clearly explain to us in metric terms, how are we expanding our capacity over the next two years and what capacity expansion are we envisioning?

Vinod Gupta: I think overall what approach we are taking is that for Dera Bassi because lot of products are matured products. So, we will see year-on-year rate of growth of say 5% to 7%. So, that capacity we are simply increasing by debottlenecking. So, maybe changing some recruitments, improving some processes and all. So, that is where Dera Bassi will continue to add capacities depending on the market requirement. Majority of capacity addition will come from Lalru that is where we have a space also for expansion and that is where we have actually invested in last quarter also in one of our products that particular product has a very bright future going forward and that is where our capacity additions will come. I would not like to quantify in terms of metric ton because that is something where we do not want to sort of mainly because of the confidential reason we do not want to just comment on that.

Shalil Shroff: And also please understand that moving forward today at the end our aim is to cross 3,000 plus in terms of sales in the next two to three years. So, that is where we are also looking at site within Maharashtra, Gujarat so that is also been happening. Fortunately, we have looked at one plate which we were ready to sign off, but unfortunately there were certain issues where our legal department did not allow us to go ahead with it, but we are hopeful that within this financial year we should be able to identify and that would definitely bring in more because of the way we are getting inquiries, the way we are discussing with our ongoing and new customers every day we believe this could be opportunity where we need to take a fast and then commercialize into production.

Ayush Agarwal: So sir safe to assume that we would be spending more close to 100 crores, 200 crores in the next two, three years on expansion in Lalru and the new facility?

Shalil Shroff: Maybe little more it depends on the product, depends on the product nature when I say nature whether it is hazardous obviously chemicals means whether it is acid or whatever I mean it would be a little bit beyond 100s. So, maybe between 120 crores to 150 Cr.

Ayush Agarwal: And final question is on your if you can help us understand what are the key raw materials where we are seeing a huge price increase which is leading to lower gross margins because what I can see hydrogen hydride is already going down I mean in current terms of course we will start buying now, but if you can chart out the key raw material for us and where we are seeing price pressure from?

Shalil Shroff: As you rightly said hydrogen hydride has gone to a unbelievable pricing which really affected not us, but they affected worldwide and yes there is taperness coming back I mean overall cost in terms of as you know that we try and develop more and more vendors in India, but even the cost in India with the electric and the power is going up and also we have decided I mean we have already been working with Europeans and US. So, we see a drop, but we do not see a bigger drop, but over the years we have been discussing with the customers and we believe that where we would be, would be going back to where the prices may be around a year, year and half back should fall in place Q1 Q2 of next year.

Moderator: Thank you. We have the next question from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Sir in the CRAMS basket can you talk about what percentage of revenues are coming from the molecules that have become generic in last three to four years and what kind of generic pressure or participation are we seeing in those molecules?

Shalil Shroff: In CRAMS one is our generic which is close to around 40% and around 65% is CRAMS so the balance is innovative product where we have technology transfer with two Japanese companies and one more which is happening.

Keshav: Sir, I was reading that even for post patent expiry it is very difficult for generic players to take market share of the innovators that is even after the species expire, so what is your opinion about that firstly and why I asked that is because to basically understand when we forecast for the kind of growth we expect in the medium term, is it this assurance of the innovator business being difficult to take market share from that health forecast kind of scale?

Shalil Shroff: So, there are two aspects in innovator products is people who are already makin g by themselves in their own country or they are buying it from China. So, we as Punjab Chemicals we have always said that we like to work on this CRAMS business. So, we are already in discussion. It is very preliminary with one or two companies where we are looking at these off patent products which we can we believe we have the expertise, we believe we have the knowledge and they are themselves will be visiting the site to take further notice because one is now that the COVID and everything is opening people are freely to travel. So, we are looking into three aspects. One is that we do with our own R&D generic where we believe we can get the market share. Two is we work with innovators where we can look at expanding our business and three is where we look at China Plus and there are some customers who are already in already in touch with us who have some questions related to supply chain and that is where we will fill that gap in. So, that is where our approach would come towards product which are going off patent.

Keshav: Sir for example if we on board a innovator customer and the product is still a late stage product and it goes off patent and say another couple of years, so post that we will service that product in only in CRAMS capacity to the innovator or would we also go for the generic market that is basically what we are trying to understand?

Shalil Shroff: If the product is a technology transfer and generally by and large we work with that customer itself because that is the loyalty number one. Number two is when we have started to work when it was a patented or off patented we would like to work with them continue with them because then we do not only look at that product we look at multiple opportunities with them. As I said today with the customer I am not looking at doing a $1 or $2 business. I want to look at in the next three to five years how can I reach to $3 to $8 to $10 business.

Keshav: Sir, I mean that is where the generic question also sort of comes in that how difficult is it say a product that is going generic right now for some of the third parties to take market share from because from what I have preliminary my understanding on this space is that it is not that easy. So, even post expiry the market share is fairly know which stage is innovative for at least a few years is that correct?

Shalil Shroff: It depends I mean if a product goes out of the patent then obviously the customer or the patent holder goes back to the EU, go back to US or go back to Australia wherever world the market is he goes back and ask for more data for whoever like for example Punjab Chemical is entering. So, what we do is that we do proper backup homework. So, today if we are going to launch a product which we are going to compete with the generic we always work back in terms of what money we need to spend and I agree with you it is not that easy that once it goes off patent that tomorrow morning I can start selling, but within the next between one and three years depending on the market whether it is Europe, US, Latin or rest of the world. So, it depends geographically that is where we try and fulfill where we can easily get an access once it goes patent then we can launch it within the first two years.

Moderator: We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I just have one question now in the first half you see our revenue growth has been quite strong over 30% now how sustainable is that 30% growth now specifically given that the second half might have a higher base?

Shalil Shroff: As we already have said that we are driving towards the existing products to get market share and also with the newer products to be launched. So, we believe where we have drawn our plan of a 1,500 crores order book position. So, last year we were at around close to around 700 this year we believe we should be anywhere between 1,100 to 1,150 and the other would be going forward would be 1,500.

Deepak Poddar: So, 1,100 to 1,150 crores of revenue in FY23 and FY25 we might be looking at 1,500 crores plus kind of a revenue and FY24 might be somewhere in between?

Shalil Shroff: Yes by the time we have certain products registration and all so we believe we should be higher than that.

Moderator: Thank you. We have the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: So, in a total sale if you can give us the breakup of sales between plants and spot sales and how do you see this ratio going forward over the next two, three years?

Shalil Shroff: As we have already told you that 60% to 65% of our business is CRAMP sale. The other is industrial as well as we call them performance chemicals. So, the performance chemicals falls in industrial into intermediate and specialty chemical. So, even to give that breakup we would be close to 15% in terms of specialty and industrial chemical and the balance 15% or maybe a little more 20% would be into the intermediates and fine chemicals.

Ankit Gupta: So, the remaining 35%, 40% that you have talked about that will be on spot basis it is not a long-term contract that we will be having for specialty chemicals apart from the 65% CRAMS portion that we have?

Shalil Shroff: It is basically for business it is the products which we are already selling it is like for phosphoric acid which goes to Coco Cola, Pepsi. Now, if Coca Cola and Pepsi decide to shut their shop then it is a different thing then it becomes difficult, but we have ongoing contract on the year-to-year basis, but there are certain products like commodities in terms of like sodium nitrite. We look at the phosphoric acid not the higher grade, but the local grade that is more on oxalic acid. We say that more on a quarterly basis we have orders we do not have anything on spot which we look at. So, we always between 1 to 3. So, every quarter we exactly know that whether the remaining of the business how much is the order position where we need to be flexible and take it forward. So, maybe 5% or maybe under 5% would be support like the products like sodium nitrite or something like that which is comparatively very less than today. Planning I think after COVID everybody has realized that we need to have a proper understanding with the customer to ensure a smooth supply chain.

Ankit Gupta: And how do you see the ratio of CRAMS in our business in FY20 for the near plan to reach 1,500 crores of top line?

Shalil Shroff: As I said every day we have more and more inquiries and we have more and more new customers more and more even old customers who want to do as I said with the customer we do not look at $1, $2, but we say how we can make it $4, make it $5 and beyond that. So, moving forward CRAMS will be our driver and that is where we are focused on to ensure a good supply and good quality products and so far all our customers even after COVID whoever has been visiting in the last 6 to 8 months have been very happy the way we have maintained and tried to ensure a good health safety environment because that is very important. I mean we are a good manufacturing company, but looking after health, safety, and the environment a priority.

Ankit Gupta: So, I will just wrap it up. Can you talk about our product pipeline for second half of this year FY24 and FY25 how many products are we launching the size of them and how many of these products will be patented or off patented?

Shalil Shroff: So, you know, as we have always said because of the confidentiality we cannot give you product name, but yes I mean the driver would be on the agro chemicals, technicals which we will be making, which will be the growth. The products which today we are looking at which would come in between 23 and 24 would be too in the agro and one is the specialty chemical. I will not comment on the patented product because it is all under confidential agreement so please excuse us or forgive us we will not be able, but once obviously everything is in pipeline we have had a okay from the customer then we will definitely inform very loudly because that helps the visibility for you to know how the company is moving forward.

Ankit Gupta: And potential of this product sales from this?

Shalil Shroff: I mean as I said we are looking at products anyway ranging between 25 to 50 million going up 50 to 100 million.

Moderator: Thank you. We have the next question from the line of Harsh Beria of Professional Investor. Please go ahead.

Harsh Beria: I have a question about Punjab power cost if I look at it on an absolute basis I think in FY22 we spend about 60 crores in power versus similar sized peers who make similar top line as us who generally spend 32 to 33 crores, so why do we have higher power cost despite rice husk which is an agri residue?

Shalil Shroff: I think see what has happened in last two years after this form bills there has been lot of restrictions from the government on rice husk selling and procurement. Now, that has definitely put a rice cost availability itself under challenge. In fact, we have been very actively managing buying our prices because some units in Punjab has actually is a run out of the fuel itself whereas we have ensured that the pipeline continues that is the first thing. Second thing some of our products are highly energy intensive. So, it is not a fair comparison of top line versus the energy cost. Our products are energy intensive and that is where more energy goes. So, combination of these two factors actually it is sort of that is where our energy cost is high.

Harsh Beria: My second question is about I think you talked about an Israeli customer visiting you this quarter and we can see that you also have an Israeli customer which is very big in the fermentation space, so is it the same customer and do you have fermentation capabilities in your plans?

Shalil Shroff: We do not have a fermentation capabilities, but we do certain steps within that process for some of our customers. So, we do not do fermentation processes, but one or two steps which are very critical where very high level of controls are required and technical skills are required we do certain processes in that value chain.

Harsh Beria: And could this be like a higher margin than your base business?

Shalil Shroff: That is the higher margin than the base business, but it is a very that segment is not very big and it takes time to grow that business, but yes it is substantially higher margin than our base business.

Harsh Beria: And my last question is about your CRAMS relationship, so in the newer CRAMS relationships which we are establishing are we the first source or like an alternate source?

Shalil Shroff: So, it depends on the customer so in many cases we have been the first source moving forward also there would be a mix of both. I would like to quantify the numbers because you know with the customer also as many of you know, many of our customers that is why I would not like to quantity, but to answer yes in many cases we have been the first source and then we become in certain numbers where they look at a different supply chain as a second source.

Moderator: We have the last question from the line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain: Sir, my first question is we are hearing two contradictory things. One is there is a recession in US and Europe and we are hearing there is lot of demand issues on the other hand over the previous concall and even in the current concall you have been saying you are receiving more and more an inquiries from the existing as well as the new customers, so just wanted to join this and find out what is happening, is there any delay in getting orders or deferment of the existing orders from these regions?

Shalil Shroff: I think recession I think what people are talking and which I also see in CNN or BBC or which I have seen is generally more from a perspective of people travelling, spending money, but as far as we business we are into agri I mean food is a problem worldwide and people do want to eat there is cost comparison. So, I believe in our sector there has been delay in registration process, but by and large could come in more robust demand because population is increasing, food is a must may be as far as delay would be just for the adjustment of certain stocks which maybe during the COVID time people have bought more by and large we do not see such things with our customers, but we have been always discussing with them on a quarter-to-quarter basis and sometimes on a monthly basis to ensure whether it is Latin America, US, Europe, Japan, Australia and that is where we strongly believe that towards the business potential we do not foresee maybe a recession which they are talking about is more from a spending point of view and which today I could also say in the last during Diwali and all I mean the traffic in Mumbai has been so nice even I have been to restaurants where the people who you go to regular customers have said that people have been dropped. So, I think spending power towards entertainment, towards travelling, towards this may have a slight delay, but we believe as far as the agri sector I mean food is something which is very important and that will definitely continue and especially here again Rajesh why I am surprise is China because China is becoming very difficult for the world and that is where I think India has a good opportunity and we are thankful for the team we have created and the plants we have created that we are getting such inquiries on the daily basis.

Vinod Gupta: So, I think I will just put it we do not see this is a contradiction because the interest from new customers is around obviously creating an alternate source to China or capabilities which India as a country has developed and Punjab Chemical has developed. So, that is where we see lot of inquiries. So, we do not see a contradiction between the pressure that is coming from the market versus the business opportunities that we are able to generate so there is no contradiction if you see.

Rajesh Jain: So, is it fair to assume that our top line target of 1,200 crores during the current year and 1,500 for the next year so that should not be a challenge only the margins may vary plus or minus 1% based on various other factors is it a fair assessment?

Shalil Shroff: I think it is a very fair assessment and as I said that maybe certain stock position may differ maybe anywhere between 10% to 15%, but otherwise we are very much at target. Order book is strong maybe it gets delayed may be it does not fall in Q3 or Q4 maybe gets delayed over the next year, but right now the way we look at our trend we are already at 55, 60. Moving forward the Quarter 3 looks perfectly fine and we believe Quarter 4 also should be perfectly fine.

Rajesh Jain: It is regarding your CAPEX at Lalru unit the first plant basis have we got the EC approval for that one is that. Second based on whatever the CAPEX schedule you have already planned out, is it enough to take care of this 1,200 crores in the current year and 1,500 crores of top line growth whatever is the capacity is it sufficient?

Shalil Shroff: As environment clearance we have everything in place no issue at all and your second question was yes the plant is capable more than 1,500 crores I would just add to that.

Moderator: Thank you that was the last question. I will hand it over to Mr. Nachiket Kale from Orient Capital for closing remarks.

Nachiket Kale: Thanks everyone for participating on this call. I would also like to thank the management for sparing their time today and for any queries you can get in touch with us Orient Capital as the investor relations advisors to Punjab Chemicals. Thanks to team Antique as well. Thank you Manish.

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