"Punjab Chemicals and Crop Protection Limited Q3 FY'24 Earnings Conference Call"

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MODERATOR: **MS. DARSHITA SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to Punjab Chemical and Crop Protection Q3 FY24 conference call hosted by Antique Stock Broking. As a reminder, all participant line will be in 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 star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Darshita Shah from Antique Stock Broking. Thank you and over to you ma'am.

Darshita Shah: Hi, thank you Riya. Good afternoon to all the participants on the call. On behalf of Antique Broking, I welcome you all to Punjab Chemical and Crop Protection Q3 FY24 earnings call. From the management side, we have with us Mr. Shalil Shroff, Managing Director and Mr. Ashish Nayak, CFO.

I would like to hand over the call to Mr. Ashish Nayak for his opening comments, post which we shall open the floor for Q&A. Thank you and over to you sir.

Ashish Nayak: Thanks for that. Good afternoon everyone. We welcome you all to our Q3 and nine months FY24 earnings conference call.

On the call today, we are accompanied by our MD, Mr. Shalil Shroff. We would like to begin by acknowledging the challenging market conditions agrochemical industry is currently undergoing. Demand from global manufacturers continues to remain muted due to high channel inventories and adverse weather conditions, thereby impacting exports.

At the moment, customers are extra cautious to build inventory and hence more buying is happening closer to the season. We anticipate a recovery in the demand from FY25 onwards. We are all aware that the global landscape for agrochemical industry is undergoing major shifts marked by evolving regulatory requirements, changing consumer preferences and macroeconomic uncertainties.

In response to these challenges, we have been proactive in realigning our strategy. Our new product launch remains on-track and customers are happy with the progress that we are making. Our efforts on R&D are yielding good results. We have reviewed our existing product portfolio afresh and all our products are very strong in the market and we have competitive position due to quality and cost.

Recovery in demand will resurrect our market position. We continue to work aggressively to maintain our quality and cost leadership. In response to these challenges, we have been proactive in re-evaluating and adapting our strategies. We are being nimble to take quick decisions, exploring all opportunities to serve market and expand our market base, tracking global and domestic markets very closely.

On the P&L front, revenue from operations for Q3 FY24 was INR214.10 crores and for 9 months FY24 was INR737.7 crores as against INR260.5 crores in Q3 FY23 and INR811.20 crores for 9 months FY23. On the geographical split, domestic market contributed INR103 crores and international market contributed INR111 crores in Q3 FY24 and INR356 crores in domestic market and INR382 crores in international market for 9 months FY24.

Gross margin for Q3 FY24 was INR41.4% and for 9 months FY24 INR38.8%. Higher in both cases as compared to 36.3% for Q3 FY23 and 9 months FY23 as well. As stated in our earlier investor presentations, we have laid a lot of focus on process re-engineering and improvement in gross margin is on account of the improved raw material efficiencies. as well as the product mix based on the prevailing market conditions.

EBITDA for Q3 FY24 was 12.2% and for 9 months FY24 13.5% as compared to 13.4% in Q3 FY23 and 12.5% for 9 months FY23. Our production facilities at Derabassi and Lalru are functioning at 71% for Derabassi and 49% for Lalru as of 9 months FY24.

On the balance sheet front, as part of the asset renewal process towards improving efficiencies, cost optimization and improving safety, we have incurred INR22 crores which was funded only from internal accruals. There was a marginal increase in net working capital from 63 days to 76 days.

The net equity ratio as on 31st of December continued at a very healthy 0.3. We continue working on new chemistries and identifying potential molecules. Currently we have several products in the pipeline across different categories including advanced intermediates, fungicides and herbicides, as well as specialty chemicals. We will start realizing its potential from FY25 onwards.

We have started to receive commercial orders for some of our advanced intermediates and specialty chemical molecules and supplies have started. We expect to finalize supply agreements over the next 2 to 3 quarters. We have also received approval for some new products, as well as registration for few products in the European Union. We expect to capitalize on these new products from FY25 onwards.

In fact, in 9 months FY24, some of the shocks of reduction in demand for existing products was absorbed by these new products. Looking ahead, we remain cautiously optimistic about the future. As market conditions remain turbulent, we are committed to staying agile and adaptable, ready to adjust our strategies based on emerging market trends.

Our focus on innovation, sustainability and operational excellence positions us to weather these challenging times. As stated earlier, for our new products, we have shortlisted a few locations for our new site. We are also working on our expansion plan including a new production block in the agrochemical site at Derabassi.

With this, we now open the floor for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Hi sir. Thanks for the opportunity. So on the previous call, we had mentioned that we were going to launch three molecules in quarter four. So what is the status for that and what would be the market size for these?

Shalil Shroff: So you are right. That is what we had spoken about it. As we understand that the one product, we have already got the registration and commercial quantities are started. The other two registrations we are expecting to get later this year. And thereafter, obviously, we will start the supply chain taking it forward. The quantum of this total business would be in the tune of around between INR100 to INR150 CR, which will go as registrations we get globally in other sectors in the world.

Jainam Ghelani: Okay. Thank you. And so we were also planning to get approvals for our…

Shalil Shroff: Can you please talk a little louder?

Jainam Ghelani: Sir, can you hear me now?

Shalil Shroff: Yes, I can hear you, but you are a little… Yes. Okay. Go ahead.

Jainam Ghelani: So we were looking for approvals in the Australian and EU markets. So have we received these?

Shalil Shroff: Yes. So the registration in Australia we have received. But unfortunately, because of the climatic conditions there, there has been delay. The business is with Punjab. The customer is… we are in touch with the customer on a regular basis. And we expect by Q4, the sales should start in Australia. As far as EU, one of the product, as I mentioned, the registration has already come in and we have started commercial quantities.

Jainam Ghelani: So overall, do you think the pricing is bottomed out in agrochemicals and how do we see the demand going forward? And what would be the growth guidance for the next two years for the company?

Shalil Shroff: So as we said, I mean, Punjab, we work very robustly on bringing down costs in terms of the product. Our R&D is continuously working on the existing as well as new products. And I'm happy to say that as far as our portfolio is concerned, we have looked at it globally with the competition. I think we are at par and maybe in certain ways we have a plus point matching with the international demand.

Now going forward with the forecast, as of date, if you see that still many companies, which you must have seen the results from the Indian as well as overseas, are still struggling with this inventory levels across the border. And again, with the certain climate conditions, which still have not, the inventory levels have not still tapered down.

But we believe by Q4 or beginning F'25, things should be much better. Moving forward, as far as Punjab is concerned, we have a very strong portfolio, a strong customer base. And the discussions which we are having are continuously going on only because of certain inventory levels, the products have taken delays. And that's where also a few of our registrations, which will now fall in place by Q4, we will be able to start commercial supplies and take it forward.

Jainam Ghelani: So what would be the contribution from the new products in FY'25, if you could give a rough figure?

Shalil Shroff: So as we have always told you that, you also see over the last three quarters, our revenues have gone down. Again, it's because of the conditions and the product demand, and especially the supplies, which are still with the customers. So moving forward, we believe that we will be in a position to overcome this and then get back into our routine, what we are doing. As far as margins are concerned, we had, if you recall, during Q1, we were…

Jainam Ghelani: So, sir, can we say that our revenue would be flattish till Q3 FY'25? And have we faced any deferment in our contracts that could be visible over the next one year? So have we faced any deferment in our contracts for cramps? And if not, can we expect that our revenue would be flattish till almost Q3 FY'25?

Shalil Shroff: So as far as the contract is concerned, there is no deferment. In fact, we have added more contracts to our business portfolio. As far as the product goes, yes, because of the inventory levels, if you see our revenue on quarter-to-quarter basis, because of that, the business has been deferred. But as I did mention to you, we are very optimistic and we are continuously discussing with our customers and we are hopeful that by Q1 or Q2, everything should fall in place.

Jainam Ghelani: Okay, sir. Thank you. I'll get in queue. Thank you.

Shalil Shroff: Thank you.

Moderator: Thank you. Next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Yes, sir, just a couple of questions. First is on the gross margin. If you can just probably give some perspective in terms of what has been the improvement in gross margin for us.

Ashish Nayak: So as I mentioned in the commentary as well, the gross margin has improved from 36.3% to 41.4% in Q3 FY'24. And for the nine months, it has gone up from 36.3% to 38%. This is primarily on account of two factors. As we have been stating earlier, we have been doing a lot of process reengineering as well as improvements in the processes, which has helped us to improve upon the raw material efficiency. So that is one of the major reasons for the improvement in the gross margins, in the raw material margins, basically. And the other reason is obviously the product mix at the end of the day.

So these two factors have – and some of that has also come in from some of the newer products, which I discussed in my commentary. So it's a combination of all these factors that the gross margins have improved.

Moderator: Unfortunately, we got disconnected from Viraj. Moving forward. Moving forward, next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thank you for the opportunity. First of all, a very commendable performance given what we are seeing in other agrochemical companies on the technical side. I just wanted to know, on our new product launches, are we seeing any deferment of launches from our partner side or from our customer side as well, that they want to defer the launch to launch by another six months or a year or so?

Shalil Shroff: Can you just repeat? I lost you in between. You asked from the customer, and then I lost you.

Ankit Gupta: So I was asking if the customers are also deferring their buying for the new product that we are planning to launch, given the scenario of what is happening in the global agrochemical markets?

Shalil Shroff: Yes, so as we said that one of the products, we have got the registration and we have started moving commercial quantities. By and large, with the new products, we have discussed with our customer and we don't foresee much problem, but the uptake which we had thought of that would happen would be tapered down a little bit. But fortunately, the discussions which we have had and we feel very optimistic that by beginning of next year, that is Q4, things should be much more normalized. And we get back into the area of what we had targeted in terms of quantities and revenue.

Ankit Gupta: And as you said in your earlier answer that you expect the global agrochemical market to go through challenging times till Q3 of next year. Is that right?

Shalil Shroff: Correct.

Ankit Gupta: Okay. One more thing, if you can elaborate on this subject. You had spoken that one of the major reasons for improvement in gross margin was the product mix. So, what exactly are these products?

Are these extremely high margin products that – new launches we have done over the past year or so? Are they very high margin products? Plus, haven't these products also seen some price decline given what is happening in the global agrochemical market?

Shalil Shroff: So, basically as we said, product mix. So, Punjab, we are into agrochemicals and performance chemicals. So, on the agro side, as Ashish did mention and I think somebody had asked a question but he got disconnected, that our R&D has done a good job to bring down costs. So, that's where the competitiveness has come in.

Unfortunately, because of the inventory levels, we could not achieve those volumes. But we expect, as I did mention around 30 seconds back, that things should fall in place by Q3, Q4 of this financial year. As far as the product mix here in performance chemicals, we do make some special intermediates which go into both pharma as well as agro.

So, that's where the margins have been a little higher. And there we have not seen much of an impact. But please understand that these intermediates which go into pharma or into agro, the customer has launched the product a year and a half back by the time they got the registration, by the time they got the FDA approvals and all.

So, we expect this business also to grow substantially and bring in a better realization to the overall portfolio of the company.

Ankit Gupta: How many launches are we planning to do in FY25?

Shalil Shroff: So, we have three products which are registered, out of which one we have already started commercial. The other two we expect to start in Q3, Q4. That's more on the agro side. We have also got into a long-term agreement with one of our customers for our agro product, which we expect to launch again by beginning of next year.

And on the performance, where we talk of intermediates, we have approximately four intermediates, for which already one has started. The other two samples, everything has been approved. And the commercial quantities will start post-Q3.

Ankit Gupta: So, almost eight products that we are planning to launch next year, including the one which has already been launched.

Shalil Shroff: Yes. And these, obviously, as I said, with the registration process, and especially with the intermediates, a few of these drugs which we work, which go into the pharma sector, and for them to get their approval in different markets. So, we have gotten approval in Europe. So, that's where we will start in Q3 of this year.

And hopefully, with the discussions which we are having with the customers, hopefully by next year, we would get in the USA.

Ankit Gupta: And on the performance chemical intermediate side, what can be the market size for these products when we scale up?

Shalil Shroff: Yes. So, these products, the three which we are right now currently already approved, and which are one which has started, and the two which will start, should bring in a revenue of close to around INR150 crores in the next one to two years, and can grow by another 30% taking it forward.

Ankit Gupta: Okay. So, INR150 crores from this product and INR150 crores from the agrochemical products which we are planning to launch next year. So, almost INR300 crores kind of potential which we can realize, let's say, in FY26, if not FY25.

Shalil Shroff: Correct.

Ankit Gupta: Okay. So, on the gross margin thing, this quarter, we have almost touched 41.5% kind of gross margin. So, let's say, when things normalize in the agrochemical market, what will be our gross margins? Will we remain around 36%-37% gross margin that we have done previously, or will we see an uptick in the gross margins in this gross margins of 41% or above 40% sustainable?

Shalil Shroff: See, we are in a chemical sector, and R&D is always working very robustly hard to take these margins forward. And whenever we launch or whenever we start a product -- you will agree with me that we have a certain benchmark, and based on that, we launch the product. And then, obviously, there is a margin where we need to improve.

So, definitely, the team is working, and we are very confident that this margin will increase. As the product, we start manufacturing, we make more quantities. Once the quantities get more, the production people, the R&D team work very hard to ensure that we achieve what is our ultimate goal.

And our ultimate goal is to increase our margin, and that's where you have seen, even with the revenues going down, we have tried to maintain in this volatile business atmosphere. I think, as far as Punjab goes, in Q1, Q2, Q3, we have done a fantastic job, and even Q4, we believe we should be on the same line.

Ankit Gupta: Thank you and wish you all the best.

Moderator: Thank you next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: So just one clarification on this new product line so until last quarter we were talking about three ag chem in which you were mentioning that... Wait a second. Two, you have got registrations and were thinking of commercials in H2 and full effect in 25. So, in these three products, is there any changes from this call?

Shalil Shroff: No, no, there is no change. As I did mention, that one product we have already commercialized, the shipments have started. The other two will start beginning Q3 or beginning of next year, 25.

Pritesh Chheda: Q3?

Shalil Shroff: Q4, sorry, Q4. Q4 of next year.

Pritesh Chheda: So, which means, what was supposed to come in FY25 is now more or less put up in FY26 then?

Shalil Shroff: Correct. One of the products.

Pritesh Chheda: So, there is a delay of one year?

Shalil Shroff: Correct.

Pritesh Chheda: My second question is, on the revenues that we have reported in the nine month and whatever revenue we have reported in the quarter three, can you give us some idea on the volume performance? What kind of volume decline we would have seen in the quarter three and in the nine month?

Ashish Nayak: So, not much volume change if you look upon it. Whatever impact is there is primarily on account of the price. There has been a marginal decline in the volume but nothing major as such.

Shalil Shroff: Please understand with the competition happening, especially with China and other players coming in, as we did mention that our R&D has done a good job. So, with the prices of certain products which were X has become minus X but we have still maintained the profitability. As we said, yes, volumes have gone down and that's where overall the impact comes on the revenue and then on to the margins.

Pritesh Chheda: And the commercial product, the supply for which one of the product where it is commercial now, what kind of revenue are built in for FY24 or it is also a FY25 product?

Ashish Nayak: So, FY24 we have already started commercial sales on these products but we will not be in a position to comment on the value or the volumes which we have recorded in this particular quarter and what we are anticipating in the quarter ahead.

Pritesh Chheda: And the three performance chemicals which you mentioned in this call, the supplies for those three performance chemicals is 25 or is it 26?

Shalil Shroff: 25.

Pritesh Chheda: So, between now and 25, you will have one agro and three performance chemicals to drive your growth.

Shalil Shroff: Absolutely. Those are the three products which will help in driving but please also understand the existing product volumes which were there have gone down because of the inventory levels. And as I said that once the inventory levels taper down, we already entered into the new year because for an Indian company, it is April to March but for the other companies, it is the calendar year.

So, we expect a good uptake of the existing product, not coming to the full but at least increased by at least another 10% to 15%.

Pritesh Chheda: 10% to 15%is for Company?

Shalil Shroff: The existing product.

Pritesh Chheda: Existing product 10% to 15% in FY25?

Shalil Shroff: 25.

Pritesh Chheda: Thank you.

Moderator: Next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Limited. Please go ahead.

Bhavya Gandhi: Hi, thanks for the opportunity. I just wanted to understand the broad terms and conditions of Scram's business. Is there any minimum off-take guaranteed or any minimum margins because in this kind of challenging environment, I just wanted to understand how are the contract terms, broad conditions, if you can just throw some light on that.

And what is the price revision duration? Is it like an annual revision or is it like a quarterly or half yearly?

Shalil Shroff: I think many people have asked these questions. So, as far as the contract goes, yes, there is a take and pay. Also, there is a cost where the raw material is auto-checked every quarter.

Margins and the variable cost are per year. But if there is something extraordinary, we sit with the customer. But as you rightly said that right now, you know, with the conditions in the market, I cannot tell a customer that you have a take or pay or a lifting of certain quantity and now you have not lifted.

So, in bad times, good times, we have to work more on a fair ground to understand each other. And I think this is appreciated by both us as a supplier and they as a buyer, which builds a stronger relationship. Now, with these customers where we talk to several of these people, we are not looking at just focusing on this one product.

But over the years, they also have a growth plan. Now, can Punjab be part of the growth plan? As I have told you, Punjab, we want to be a strategic supply source for intermediate AIs to various companies across the board.

So, during bad times, we do not pressurize this, but this is well understood between us. To keep that, we have worked together to ensure that we both ensure to sell the product. But as and when the market and the demand, the supply gets a little cleared from the inventory level, definitely we will get back to our original position.

Bhavya Gandhi: Okay, got it. And just one last question, are these molecules specialty in nature or are they generic or patented? If you can throw some light on that as well.

Shalil Shroff: So, as you know, there are two products we already do which are patented by a Japanese innovator. The other four or five products which we do are generic. But again, a few of them where Punjab controls almost 80% to 90% of the market share.

Bhavya Gandhi: Got it, got it. Thank you so much. Yes, that's it from me.

Moderator: Thank you. Next question is from the line of Chirag from White Pine. Please go ahead.

Chirag: Yes, thanks for the opportunity. There are two questions. First is, you mentioned a comment that there has been a significant degrowth or decline in the old molecules in nine months.

So, can you quantify that? What kind of decline you are referring to when you say significant? And maybe if you can also indicate how big they were earlier before the decline and now how much they are in overall revenue?

Ashish Nayak: Well, first of all, I stand misquoted on this. I never said there's a significant decline in the volumes. All that I said was there was some decline for some of our existing products which was made up by the newer products that we launched.

And as to, because it's a multi-product company, every product, the range may be different. There are some products which we have managed to do better than what we did last year. There are some products where we managed to reach the same levels as last year.

There are a few molecules that we did a bit lower as compared to last year. So, it's a mixed bag. I won't be able to single out because as a strategy, we do not name any products or molecules in any of our investor presentations.

Shalil Shroff: So, just to add to what Ashish said, that even if you see on a quarter-to-quarter basis, the volumes have gone down. It's again because of the inventory level. Now, if we take back, to bring back to these inventory levels, as we have said that last year we closed at around INR1000 CR, this year our plan was between INR1150 crores to INR1200 crores, which of course we will not be able to do that because of the decrease in volume, again, because of the inventory level.

And as I said that we are very positive, which we are discussing with the customers, that during this year and the financial year of April to March, we believe we could take it up by at least 20% extra in terms of what quantities we have done. The full business, which potential is there, we expect should happen post '25 or '26 of the next financial year.

Chirag: Fair point, sir. And the second question is, while you have done a good job on the gross margins, and congrats to the team, I am looking at other expenditure and it seems to be very stuck at around INR400 crores kind of a run rate , sorry, INR40 crores, kind of a run rate.

Ashish Nayak: Yes, so other expenses, there are certain expenses like EHS expenses, some of the costs have gone up marginally. Okay, so that's one of the main reasons why these have remained constant. We have also put in a lot of efforts in maintenance capex as well, which comes as a part of our maintenance expense.

So all these other factors, what we have basically been trying to do is, while in some cases the volumes, there may be a drop, but we see that there's a good future going ahead and we are preparing ourselves for that and ensuring that our people, our equipment and our resources are in good working condition so that we are able to make the best when the time gets better.

Chirag: Okay, sir, just clarifying because your maintenance expense, the maintenance that you have been doing seems to be reasonably high over the last two, three years. So when the cycle turns around, we can actually see a drop in this number? Is there any preponement or bunching up of this expenditure so there could be a double impact on your margins? Is that the way to look at it?

Shalil Shroff: What I will add that, you know, during the various calls, I think, you know,Vinod , the CEO had mentioned that we are reengineering, redoing our plans. So almost close to around 60% to 65%, we have done it in terms of looking at health, safety, environment, looking at better utility in terms of pumps, etc., recovery systems. Moving forward as new products coming, definitely we will be adding such recoveries because today cost, as we did mention, and a few of you have appreciated that the R&D and the team has worked hard and that is where we have been able to maintain our margin even with the revenues going down.

So please understand that in a chemical company, reengineering, relooking at processes is a continuous daily routine. You know, every morning you get up, you make your coffee, but we always like to look at that how can we make it more efficient, efficiently and effectively with not deteriorating the quality. So that's what is the motto and that is where Punjab in terms of our cramped business around the world, you know, we started with one Japanese in 2010-'11

Today we have four Japanese who are working with us. We have Europeans. We have Israelis.

And with the Indian companies also, we are working very robustly in terms of supply chain. We want to be a strong strategic supply chain to these people for which health, safety, environment has to be a top priority.

Chirag: Thank you. Thank you.

Moderator: Thank you. Next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Yes, most of my questions have been answered. Just had a few questions on the product mix part. If you can just provide some color in terms of the top five molecules, you know.

So with this whole moderation in the base molecules, how is the top five mix change for us?

Shalil Shroff: So as we discussed that among the few agro products, because of the inventory levels still lying within the customers, that's where the offtake of that product has not happened. As I did mention around a minute back, somebody had asked us that based on today's discussion, we believe that these inventory levels should taper down in the next six to eight months, maybe nine months, and that volumes would start picking up to take it forward. As far as the performance chemical and the other sector has happened, even in the pharma, you have seen many companies have inventory levels not only based on agro industry, but even on the pharma sector.

I'm sure you guys are watching them closely and talking to them. So that's where also the offtakes have been left. But the continuous discussion with the customer, they believe and what we get a feedback from them that they also within the next eight to nine months should see an inventory clearance in the global market and gradually the pickup will start.

Viraj: Okay. And you know, in this quarter also, we've seen an increase in interest costs. So what is driving that?

Ashish Nayak: Well, the working capital has marginally gone up. So primarily that's the main reason for that.

Viraj: Because overall balance sheet, if you look, you know, so one would logically think that the net interest should be on a declining or a lower trend, but there is an increasing case?

Ashish Nayak: I know. So that's what I'm saying. The working capital requirements have gone up as a result of which the bank working capital has marginally gone up in this quarter. Okay. So that's one of the reasons. Primarily on account of receivables, some of the receivables, some of the sales which happened was for a slightly higher credit period. And as a result of it, the working capital requirement had gone up in this quarter.

Shalil Shroff: But I think it is a very short term phenomenon. Please understand with the customers, you know, sometimes, not that our majority of our customers are multinational, but you can see that even the multinational are having a pinch in terms of their, working capital or their, with the cash lying with them.

So sometimes, instead of we have a 60 day, we have given them 90 days. If it's a 90, we extend it by 15, 20 days. As I did mention, in today's difficult times, we have to work closely with each other. But to answer your question, this is a very short term phenomenon. May happen in Q4 of this year. But moving forward, starting the next financial year, we should be back on track.

And Ashish has been doing a fantastic job talking to the banks. And we are expecting, you will see that in the coming few quarters, you will see that the cost is further going down. And the working capital gets back to the normal or better. I'm pretty sure it will get to a better stage.

Viraj: Just last query was on the capex. Any update you can give on the Greenfield part of the capex?

Ashish Nayak: So we have incurred about, in terms of cash flow, an addition of around INR22 crores on capex. This is primarily at the existing sites at Lalru and Derabassi.

Viraj: No, we were looking for a fresh new site for Ag chem business.

Shalil Shroff: Yes, so as far as the business goes, as we said that because of the supply chain, there has been a slight delay. But the three products where we have got our registration, the work progress has started. Taking it forward to ensure that as and when the product gets ready, we are ready for commercialized supply.

Viraj: No, sir, my question was on the Greenfield capex site which we were looking. Given the kind of pipeline we had, we were looking for an alternative new site…

Ashish Nayak: We have shortlisted a few locations for that. Some of them are Greenfield, some of them are Brownfield. We are in the process of evaluating the same and then finalizing it in the next couple of quarters. I'm sure we should be able to take a final call on this.

Viraj: Okay, thank you.

Moderator: Thank you. Next question is from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: Hello. Yes. So, my first question is that on the domestic side, over the last four quarters, we have seen revenues are down 25%-30%. Now, is this driven – I'm sure this is driven by the market conditions. But on the domestic side, now do you see inventory levels having corrected or even on the domestic side, you expect it will take 8-9 months for inventory levels to normalize?

Shalil Shroff: So, gradually the inventory levels have improved compared to international. But we still believe that for this financial year, there will be still a struggle. And moving forward, by quarter two, quarter three of next year, things should get back to normal.

Bijal Shah: So, even on, you know, like we have a very low base on the domestic side, INR85 crores-INR90 crores. Even on that, we should continue to expect some decline going forward?

Shalil Shroff: For the Q4, it will be flat, as I said, for this financial year. And moving forward, by quarter two of next year, things should stabilize much better. Because please understand, you know, when we say performance chemicals, we also supply some specialty intermediates within India.

And there also, they have seen the same problem which is faced by the agro-industry. And whatever we have discussed with these, and these customers are big. They are like Mylan, Loris, and you know, they are big companies. And we have been, our marketing team has been in touch with them. And we believe by Q2 of next year, things should much more stabilize.

Bijal Shah: And this EU registration that you've got, is it for the same product for which you've got the Australian registration as well? Or is this a different product?

Shalil Shroff: No, it's a different product. The Australian product registration, we already got in EU. So that's…

Bijal Shah: Yes, good question.

Shalil Shroff: There is some digging work happening in our office and that's the problem, you know.

Bijal Shah: No sir, no worries. Yes, so my question was this advanced intermediate order that you've got, that is for the pharma side?

Shalil Shroff: The product, out of the three, two are for the pharma intermediate and one is for an agro-intermediate.

Bijal Shah: Okay, but the one… Okay, got it.

Shalil Shroff: So one of the pharma intermediate, we have already started commercial supplies. The first quantity has already gone in. This is a little high value product, which we have already started and which is for the EU market.

And we expect a good business this year. And I think next year or maybe end of this year, beginning next year, we should get the registration in the US for this product. There is another pharma product where we already got the approval, the registration in place. And the commercial quantities will start post April, May of 2024.

Bijal Shah: Understood, understood. That's all. That's all the questions from my side.

Moderator: Thank you. Next question is from the line of Viraj Mahadevia from Moneygrow India. Please go ahead.

Moderator: Hello, Viraj sir, you're not audible.

Shalil Shroff: We can't hear him.

Viraj Mahadevia: Hello. This is Viraj here.

Ashish Nayak: Yes. Hi, Viraj.

Viraj Mahadevia: Hi, sorry for that. Apologies. Sir, you mentioned the sector is going through a lot of things with the high cost inventory. With regards to our raw materials that we have bought, has largely the high cost inventory worked its way through the system? Or it's likely to take another quarter or two as well? Much like pricing.

Ashish Nayak: So, while we do not have any high cost inventory in our books, but yes, at the end of the day, our customers do have. And most of it has been finished off. And whatever balance is left, we expect in the next one or two quarters, that should be out of the system.

So, that's the reason why our exports to some extent have been a bit muted. But I think most of it has already been corrected. Whatever is balanced is left out in the next one or two quarters once the correction happens. The indications are looking good and positive. And we are regularly in touch with our customers.

Viraj Mahadevia: Great, thank you. That's all from my side.

Moderator: Thank you. Next question is from Rohit from IThought PMS. Please go ahead.

Rohit: Hello. Am I audible?

Ashish Nayak: Yes, Rohit.

Rohit: Yes. Good afternoon and congratulations on a very decent performance given the tough industry environment. Sir, I have two, three questions. So one was from your product portfolio, if I look at last two, three years, or I mean, let's say two, three years back, you were heavily concentrated on a couple of products from a revenue contribution standpoint.

As of now, what is that today? And from an overall numbers point of view, can you say -- can you broadly give us an idea that today -- I mean, two, three years back, you had so many products and let's say by end of this financial year, you will have so many products from a product portfolio. That would be really helpful.

Shalil Shroff: Yes, so basically, as you understand that the markets are pretty -- conditions are tight. And many companies with whom we are in discussion and not that this business is absolutely confirmed, but there has been delay because please understand in agrochemical, there is a process of registration. And this registration process is time consuming. And obviously, it's very expensive.

So, many of our customers, not many, at least two or three customers have taken this a little bit on the back burner to ensure that at the moment, their management has decided to first liquidate whatever the huge inventory, high cost material they have, and they'll look back onto this registration. That's where that delay has happened.

And that continues with same one of the intermediates, which we had talked almost one and a half year back, which is absolutely on pipeline, everything is clear, but the registration process has taken place because of this difficult times.

Rohit: Okay. So assuming that the environment reverses, so how much -- like the registration process itself is time consuming. So how much time will you take to sort of do that and then start production and supply to the customers?

Shalil Shroff: So we already said that three products where we have got registration out of what, on the agro side I'm talking, one we have started commercial quantities, and the other two we will start close to end of this year. Intermediates out of which one we have started, two we will start, as I did mention 30 seconds, 1 minute back before we got disconnected, post April.

The other three products registration, we have been discussing with the customers, and the process will start somewhere March, April. We expect for the commercial quantities because all the samples, approvals -- formulation approvals, everything has happened, but the commercial quantities will start post 2025, somewhere in their calendar year, if I say, or our calendar year Q4 or Q1 of next year.

Rohit: Understood. And sir, from a capex point of view, what is the thought process right now? I understand right now the industry is in some sort of a lull, but we had plans to sort of get to INR1,500 crores and then beyond as well. So for that, how are we thinking about capex? If you can just talk about that as well.

Shalil Shroff: Yes, so on the capex front, one is that which is our regular capex, which I think Ashish, somebody had asked, he had already answered that question. As far as moving forward is concerned, two things. One is our new site, which we are working on, and we expect in the next one or two quarters we should finalize that.

And on the regular capex of this product, we believe that post April, May, we will at least start building up a new block to cater to two of these products. And closer to end of the year or beginning of next year, we'll have another phase of capex, which we'll do. Market conditions changes sometimes overnight.

So we are expecting positive. We are in constant touch with our customers. And based on that, we will evaluate and then take appropriate action to ensure that we have that system in place for supplying the commercial quantities.

Rohit: Got it. Fine, sir. I think this is pretty much from me. Just one question, sorry, if I can squeeze. So this quarter the gross margin was very good and we've been talking about product mix over the last few quarters.

So from a sustainable point of view, do you think that 40% around is a gross margin that we would be able to sustain on a yearly basis? I'm sure quarterly, there will be ups and downs, but on a yearly basis, can this gross margin be taken as like a more sustainable and which we can continue in the future as well?

Shalil Shroff: Yes. So as we said that from the R&D front and becoming more cost effectively, that is our motto. And we expect -- yes, you're right. That's where our aim is to go 40 plus.

Rohit: Sure, sir. Thank you very much.

Moderator: Thank you. Next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Thank you for the opportunity. So I just wanted to clarify. You indicated that in FY'26, from the current base, our existing molecules will grow near about 10% to 15%, and there will be near about INR200-odd crores to INR300-odd crores contribution coming from the new molecules. Am I right?

Shalil Shroff: No. So from the existing product, as you said, now with the correction happening in the market with the inventory levels gradually going down, we expect for the next financial year, the existing products should grow between 10% to 15%, maybe a little more, but that's what we have been in constant touch with the customer. And on the newer products for this financial year, we expect to add at least anywhere between INR200 crores to INR250 crores worth of additional revenue in terms of new products.

Ashish Nayak: But please try and understand. Any new product, it takes time to scale up the production and reach those values. So over a period of time, that's the potential that these products are. And also do keep in mind that these are not the last products that you'll be rolling out. There are other products which are in the R&D pipeline. So as these products do establish themselves, there will be other products that will come in.

So as far as revenue growth is concerned, we have definitely identified products over the next two to three years as the products that are going to be launched. So Yes, we do have a good, strong product line in the R&D pipeline.

Jainam Ghelani: So that means consistently 10% to 15% of the annual CAGR growth in the revenue one can access for the next four to five years once all the product comes in place?

Ashish Nayak: That's what we are targeting.

Shalil Shroff: Yes, and in fact, 10% to 15% will be for the next one to two years. And following two to three years, we expect that you saw, I think in two years back, we grew by almost 25% to 30%. So our aim is based on today's market conditions, be a little bit not conservative, but the way the product pipeline looks between now to five years, we expect between 10% to 15% to gradually go to 25% to 30% in the next three to five years.

Jainam Ghelani: Good. Thank you for that. So I wanted to check the other thing on your product pipeline also. Because as you said, there are three, four products which are in the agro game front and three, four in the performance. So that gives us a total of eight. And we are supposed to launch a pipeline of near about 15 odd products. So can you give us or throw a light on the remaining seven products?

Shalil Shroff: So as we mentioned that, every product, because of the stressfulness in today's environment, things have been delayed. It is not that the business opportunity with these customers are lost. And we should get some more clarity. So I would like to answer this question that, yes, there is a absolute green light. The business is there. The customer is very eager to take this forward.

But there has been delay because of the challenging environment. And I believe by Q1 or Q2 of next year, we should be in a position to talk more about what is the balance seven to eight products which we are planning to launch and how we will roll out in the next, say, '24 to '26, '27, in the next three years.

Jainam Ghelani: Sure, sir. Thank you. That's all from our side. All the best.

Shalil Shroff: Thank you.

Ashish Nayak: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to management for closing comments.

Shalil Shroff: So thank you very much for taking the time. And please understand that Punjab, we believe in a strong supply chain. And we will maintain that. With this tough environment, our customers are with us and we are working together to ensure that the company grows gradually in a way to become one of the number one supplier of various intermediates as well as AIs in the world with the international market. Once again, thank you so much for your time and all the very best. Thank you. Bye-bye.

Ashish Nayak: Thank you. Bye.

Moderator: Now I request Mr. Sumeet Khaitan from Orient Capital to give his closing remarks.

Sumeet Khaitan: Yes. Thank you, everyone, for joining this call. I would like to thank the management for sparing the time and answering all the questions today. We are Orient Capital, investor-relation advisors to Punjab Chemicals and Crop Protection Limited. For any queries, please feel free to reach out to us. Thank you, everyone, and have a nice day.

Ashish Nayak: Thank you.

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.