"Punjab Chemicals and Crop Protection Limited Q4 FY2022 Conference Call"

May 06, 2022

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Moderator: Ladies and gentlemen good day and welcome to Punjab Chemicals and Crop Protection Limited Conference Call hosted by Antique Stock Broking Limited. 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 touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking Limited. Thank you and over to you Mr. Mahawar!

Manish Mahawar: Thank you, Nirav. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Punjab Chemicals and Crop Protection. From the management, we have Mr. Shalil Shroff – Managing Director; Mr. Vinod Gupta – CEO; and Dr. S Sriram– CFO on the call. Without any delay, 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. ShalilJi!

Shalil Shroff: Thank you Manish and welcome to all of you and thank you for taking your time to go through the financials of Punjab Chemicals for the FY 2021-2022. I think you must have already seen our results. From the business aspect as far as, things are pretty good, but there are few challenges which of course are well known in terms of certain prices on raw materials, fuel costs, etc., but we at Punjab are doing our level best to optimize and get the best way and that is where you have seen that the growth from last year to this year has been substantially good and we hope that in the next coming year we will do the same. So I think we can straight go on to Q&A and based on that once, as we discuss individually we can address to any concern any questions you have. Also I would like to mention that there would be certain confidential questions which may be asked and if we are not being able to reply we are sorry about it, Please understand Punjab's business is to supplying raw materials to various customers within India and overseas and some customers do not like to reveal the name of the product so we would not be able to do that so my apology there but we will be more than happy to stress on the business and what we can do, etc. So we are ready for Q&A Manish.

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

Pritesh Cheddha: Yes. Thank you for the opportunity Sir, some observation on your cash flow. During the year the cash conversion was less versus the EBITDA that we generated, we see inventory addition and we see addition in case of debtors so if you could share some comments there, debtor days have risen so, is there any change in the way we would do business incrementally some comments would be very helpful?

S. Sriram: Thank you for this question. As you know earlier also we told that our working capital cycle will increase, but if you look at March 31, 2022 balance sheet, it has gone up, as Mr. Shroff also told you that there are challenges in terms of raw material and other shipping and material coming from China and those areas, so we are basically consciously taking a call to ensure that we book our raw material in advance so that it is available for us for production for the next quarter and we will move it, once it is ready for movement to the customer. We will definitely do that, but we have built our inventory and debtors accordingly.

Pritesh Cheddha: So if you have to give a more normalized scenario for inventory days and debtor days what it should be for you if you have to look going ahead?

S. Sriram: See, my net working capital as I told earlier also, we want to build to a level of around 40 days and going forward we may want to keep it to a level of 50 to 55 days.

Pritesh Cheddha: So it is 40 days and we will go to 50 to 55 days that is what, you are saying?

S. Sriram: Exactly.

Pritesh Cheddha: My next question is what is the progress on the CRAMS business side where bulk of our growth is scheduled between let us say 2022 and 2024 and we have a certain revenue figure in mind in 2024 which is built upon CRAMS so what is the progress there in terms of business?

Shalil Shroff: As far as business goes everything is going okay. The way we are discussing with the customers, the way we are looking at projects, everything in shape and things are falling. There are few delays in terms of registration because you will appreciate that Punjab is now trying to enter into different types of markets. Geographically if you see in the last two to three years we have been in the US and Europe more and now we are entering into Latin America, Southeast Asia, Australia so these markets do take time and as you know that in CRAMS every product which we make has to be registered. So generally what happens is that we become the technical source and the customer who does the formulation which is called the nx3 have the registration done and that is done by the authorities and takes time, but having said that as far as we go and our vision where we have said that where we will reach we are going as per schedule. There is no issue or delays, maybe a few weeks plus minus, but otherwise nothing by and large. As far as growth, in general we discuss with various customers, we have various things coming in and with business opportunities coming our way all the time and we ensure, we are trying to encash wherever possible where Punjab can assist and supply these products to the customers.

Pritesh Cheddha: What is the progress on the product addition, we had one which was added last year and there were another couple of products which were supposed to get added between last quarter and now and what is the update on the capacity expansion that you are doing for the client?

Shalil Shroff: So there are two aspects one is your ongoing businesses which you know have few products for which the market is much bigger and which we have that expansion of the capacity, which has already happened and we have started delivering the goods from February of this year. As far as the newer capacity of adding products there would be another two new products which would be added because those product registrations are in place and the others, we are hopeful that by September or December we will have some visibility. But pretty sure that by the time we get into the next phase that is the 2023, 2024 we will be clear with those registrations. Please understand that the products with Punjab, we deal with customers who hold registration and we discuss long term so whenever we work on this it is more long-term supply than short-term. So sometimes this registration takes time, but the way we have been discussing and talking to the customers we are pretty hopeful that the balance too should also fall in during this year, so to answer your questions this year would have two products. If we get the registration then maybe three but by next that will add another two products.

Pritesh Cheddha: Two additions this year and if everything goes through another two next year so you will have seven because three you have today right?

Shalil Shroff: Correct the newer ones we are not talking of the existing.

Pritesh Cheddha: Newer ones in CRAMS Sir. Thank you very much Sir.

Moderator: The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: Good afternoon. Thank you for the opportunity. Please can you give the breakup of the topline between the three divisions. I think we split it up between agro, intermediates, and industrial right?

Shalil Shroff: Basically we classify us into two categories i.e. agrochemicals and performance chemicals so as we have always said that agrochemicals dominates which is close to 65% and 35% is performance chemicals. In performance chemicals we have the intermediate and fine chemicals.

Samarth Singh: What were the total sales per year for the intermediates and for the fine chemicals can you give that separately?

Shalil Shroff: For the intermediates and fine chemicals, as we have clocked in for the year at Rs 935 Cr we look at close to around Rs 600 Cr plus would go into agrochemicals and the balance Rs 270 to 280 Cr goes into the performance chemicals category which combines intermediates and fine chemicals.

Samarth Singh: For the year could you send me the top two molecules what percentage of sales?

Shalil Shroff: These two products contribute close to around 20%.

Samarth Singh: That has been a significant reduction from earlier years where it was close to 40% is that correct?

Shalil Shroff: Yes because then the product mix has done that balancing act.

Samarth Singh: On Metconazole, if I recall correctly there was a possibility of revaluation of registration in the EU which would help sales growth. Is that correct and has that happened?

Shalil Shroff: Yes. As on date what we hear from our customers because you know that this is technology transfer. It is a patented product. It has obviously gone off patent two years back but still it belongs to the Japanese and we have been discussing with them and things are going well and even for the coming financial year what we did last year we would double that capacity in terms of sales and revenue.

Samarth Singh: Last one from my side we were also introducing a new molecule in the intermediates which was supposed to drive growth this year for the intermediates so could you give an update on that?

Shalil Shroff: As far as that intermediate goes we are online. We have already conveyed and discussed it with the customers. Hopefully within this year, if everything goes well we will do the sample including these three batches because with intermediates you need to file into DMS and also we were pretty positive that we would be doing somewhere at the end of this year. But it looks like because of certain delays as you know it is a product which is an import substitute and we needed some more time to ensure, to cover not only the chemistry but also to look at the raw materials. So this has got a little bit delayed by close to around three to four months. We expect by the beginning next year or the next financial year we should have the sales coming in.

Samarth Singh: Thank you so much.

Moderator: Thank you. Our next question is from the line of Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: Good afternoon. My question is about more of the industry. What do you see in the agrochemical and performance chemicals? Can you give some flavor to what is going on in the industry, how is the demand looking like and related stuff?

Shalil Shroff: The sector we are in is agrochemicals. You know that worldwide population is increasing, land is becoming smaller. Two ways that the world relies on China and in the last I would say from 2008 to me I thought during the Olympics where we saw the domestic price increase in many products, but having said that anyway after the Olympics the price went down and people still continues, but I think on more long term people are looking to diversify out of China, China plus or whatever you can give that objective to that business, but I think by and large within Punjab or within India as a business we are generating more and more inquiries and more and more people want to work with us because please understand if they want to have a steady supply first they want to have a steady pricing and to take in forward and obviously very important is health safety and environment. So today when these people put in millions of dollars in registration they would like a steady supply because once I become part of the registration for them to change it is again a cost and then the impurity profile and there are ways of various layers which they want to go, so I think as far as your question goes they have seen that Indian companies and especially we are very happy to say that Punjab we have been very good in supply steady, in terms of quality and that is where we feel that more and more businesses are coming in. As far as the intermediates are concerned, as you know that many may go into pharma intermediates, people have relied on China and we have seen in the last, especially during COVID time and after that lot of companies are approaching us and we are trying to work how we can also supply to them and that is where I believe very optimistic that moving forward India in the next two to five years we are absolutely at the right pace. But if you have that capability then definitely the company would encash and that is where Punjab stands and you have seen in the last five years how we have taken the company from where we were and where we are today.

Pritesh Vora: Second question is about this EBITDA margin, although y-o-y there is improvement in the margin. Do you think that in the longer term this margin will improve from here on, will sustain as it is or what is your outlook in the longer term? Is the industry outlook which you described just now aids to the thesis that the margin of our company will improve from here?

Shalil Shroff: It is a mix of products because there are generic products and there are patented products and there are technology transfer products. So moving forward during various calls I said that yes comparatively over the years, from a single digit we are now into double digits. At the EBITDA we are anywhere between 15, 16 and we believe in the next year going forward we should be in the next two years in the range of between 18% to 20%. Having said that is again because of the product mix it depends on the product chemistry which we are doing and based on that we fix our margin and the way we have done our math and we believe today we are at 15, 16 and in the next two years we will definitely go up by another 2% to 3%.

Pritesh Vora: Very good and my last question somebody asked about the CRAM so what is our outlook on our CRAM? This business can grow up to what level, what kind of capex we are spending there and what is the four, five-year outlook if I want to have on the CRAM business what it can be?

Shalil Shroff: As I already said that China plus for people who have been depending whether it is a European company, US, or Japanese or whoever who have been depending on China have got a little frustrated because taking the COVID in mind they have increased prices anywhere between 30%, 50% and 60% where you do not see significant price increase in raw materials. But anyway as I said that it is a good opportunity for Indian companies and especially Punjab where we stand. We have business contacts, tie ups where we have already tied up and on a monthly basis between two to three inquiries which come in, we formulate, we get into discussion and then if things go ahead we close it. But in terms of CRAM business it is huge. The opportunity is huge. Today as I said more than 60% of our business is CRAM. If I take this year's financial number, we are close to say around 550 to 600. This can grow in the next three years to anywhere between 1500 to 2000 Crores.

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

Amar Maurya: Sir, just a couple of questions from my side. Number one is if I look at this quarter's EBITDA margin it is lower and it has been in the declining trend from last three quarters so wanted to understand that should we look at margin or is absolute EBITDA the right indicator for your company, just wanted to understand that first?

Shalil Shroff: As far as the product mix which goes in from quarter-to-quarter basis so for you to understand is basically is to focus on EBITDA, also sometimes what happens is like you mentioned that Q4 was less because sometimes the shipments because of the logistic problem which we are facing for the last two years things have become smoother. But still sometimes those products which are of a higher value do not capture during that quarter then sometimes it fills to the next quarter because you have not got the timely BL, etc. Better to look at EBITDA to by and large judge the financials moving forward.

Vinod Gupta: Let me also put one more perspective. In a normal circumstances I think you can look at EBITDA percentage as a margin but if you look at last four quarters the raw material prices increase has been significant and what is important is that with that price increase we have been able to protect and increase our absolute EBITDA, so this particular two, three quarters are exception, but in normal circumstances I think coming back to your question what is important for you to look at it is whether we have been able to protect our EBITDA and increase or not. Otherwise in normal circumstances you can always look at margin and whether we are growing on the margin and as also Shalil has already said that we are actually targeting increasing EBITDA margin also over the next two to three years.

Amar Maurya: Normally like when you track internally you would be tracking EBITDA per kg right rather than absolute margin or how do you discuss with your client?

Vinod Gupta: I think the contract manufacturing model is generally a partly cost plus model where either our margins are fixed or we get some incremental margin in case the cost goes up significantly so what we generally try is a protective margin per kg.

Amar Maurya: Margin per kg?

Vinod Gupta: Margin per volume so whatever be the volume.

Amar Maurya: What you are saying here is that since the RM has gone up and your EBITDA per kg would have let us say 20 but the RM become 120 so in margin terms your margin will look low but in EBITDA context you have basically done Rs.20 so that is why I am asking you as an investor I should look EBITDA per kg or percentage margin?

Vinod Gupta: That is what I am saying. Last two to three quarters are slightly exceptional in terms of the raw material prices which have gone up by 40% to 50% so this is not a normal trend. But I think for this quarter you should look at the whole industry not only Punjab Chemicals whether we have been able to protect our absolute EBITDA or not.

Amar Maurya: But in the normal sense you are saying we should look at the EBITDA margin correct?

Vinod Gupta: Yes, right, that is a better parameter.

Amar Maurya: Secondly Sir your other expenditure had gone up significantly in this quarter, any specific one-off into this?

S.Sriram: Basically other expenses also due to volume definitely will go up because the other factory operational expenses are booked in that row so if you know that even the power and fuel prices have gone up significantly in the last quarter also, the coal prices have gone up for every company in this industry, so all this put together there is a shift on that expense which has not gone up.

Amar Maurya: What I am saying is that when I look sequentially also your other expenditure had moved to 45 Crores versus 39 Crores whereas the revenue in the third quarter and the fourth quarter has not materially changed so I am just trying to understand what has led to this kind of increase on the sequential basis?

S.Sriram: That is what I was saying. The coal prices have all gone up significantly which has contributed to an increase in the cost.

Amar Maurya: So now if other expenditure this new normal trend should continue this 45 Crores or it should taper down from the Q1 or Q2?

S.Sriram: Not to that level of what is there in Q1 and Q2 but definitely it will come down.

Shalil Shroff: See Amar as we part of the company we always like to see alternates in terms of fuel, etc., by and large if you have seen after COVID then the war so situations have been a little volatile. We believe that it will continue for maybe the next one, two or three quarters what we see, but I think overall the situation wise in what we use as our fuel is very good. We are also trying to see what best alternate we can look at it and for us as a company it is very important because any cost increase is impact to us in terms of expenses so we always look at that and this is one of the top priorities which is on the agenda of all of us to ensure that we do that and as you know that all our contracts which cover raw material variable and margin so the variable cost if there is anything which goes substantially if there is something looking at the market we as a customer and we as a supplier they as a customer we switch across and we address it so that the pinch is not felt both sides and we carry on successfully in terms of the business moving forward.

Amar Maurya: What I was trying to understand is that at the margin level we are in the fourth quarter going into the Q1 and Q2 should we expect the improvement on the EBITDA margin because gross margin has already improved so I am just asking from that context?

Shalil Shroff: Yes moving forward this is what we have planned and as again the costs are little high so as I just told you that Q1, Q2 still the general cost on energy is up which we are addressing with our customers but we believe at the moment we should be a little bit better than what we were from last year.

Amar Maurya: Lastly from my side Sir we commenced already two new products right in Q4 we supplied some of the quantity correct for the two new products?

Shalil Shroff: Again I am very sorry because of the confidential nature we will not be able to give you the product name as I already addressed in the beginning because please understand dealing with certain customers especially with Japanese they do not like that we flock the product name all over but yes it was the Japanese product which we started during the COVID time and then things were a little bit delayed and things have become much smoother and we have already started supply much better than what happened in Q3 then Q4 and you will see now in Q1, Q2 more quantities would go.

Moderator: Thank you. The next question is from the line of Naitik Modi from OHM Portfolio Equi Research. Please go ahead.

Naitik Modi: Thanks for the opportunity. Sir could you please share the utilization for both our plants quarterly?

Vinod Gupta: You mean capacity utilization?

Naitik Modi: Yes.

S.Sriram: For our Derabassi plant it is around 85% is our capacity utilization for the year as such and Lalru we are at around 70%.

Naitik Modi: I am referring to the quarter.

Shalil Shroff: Mr. Modi it depends on the product mix what we do because there are certain products certain intermediates which go on campaign basis, but by and large if you see Punjab Chemical as a company with a shutdown of between two to three weeks where we do maintenance we do not do our shutdown totally but we spread it during the four quarters we are at close to around 85% to 88% in terms of our capacity utilization. Maybe Vinod if you want to add something on it.

Vinod Gupta: I think what you said is right. Overall I think capacity utilization for our assets have been good and wherever we are crossing 85% we have started looking at low cost solutions to further increase the capacity and because most of our products are growing year-on-year basis we just want to make sure that the assets are ready for the future growth also.

Naitik Modi: Referring to the RM price increases as well as the other expense growth, so how do you sort of pass on the prices and can we bring on in the next couple of quarters?

Shalil Shroff: Basically, what as I said that we have a contract where we have raw material variable cost and margin so the raw material is auto check on every quarter, so by and large there are two components, we do two businesses one which is a technology transfer or a patented product and one is the generic product so in both cases it is very clear that if there is an increase in raw material cost suppose, it is January, February, March for the first financial year let us look at from April, May June and then post that for July, August, September if there is something it is already addressed during the first quarter to the customer where we sit and discuss and say that the prices have gone up, it is automatically passed on to the cost as per our understanding and same goes for the other any exceptional items and this has been in the last couple of quarters on the energy cost.

Moderator: The line for participants dropped and we moved on to the next participant. Next question is from the line of Prafull Rai from Arjava Partners. Please go ahead.

Prafull Rai: Yes Sir I had a few questions. The first is we have a asset turn of around four times and we said we are at the capacity utilization of 85% so if we had given a positive outlook for next year so do you think that we will be able to squeeze out more from the existing capacities and grow at this rate or do we need some additional capacities or some debottlenecking at the existing places?

Vinod Gupta: I think fundamentally it will be a mix of the two. In some cases where we are seeing some products where the demand growth is say 40% to 50% during the year. We are going to invest in creating the assets and some projects are already under progress at the moment, but for products which are say running for a few years and where the year-on-year demand growth is say 5% to 10% we are looking at solutions where we can augment the capacity by some very marginal or incremental investments. It can be an investment in say a slightly bigger size of reactor or some additional asset to reduce the cycle time or capacity or efficiency. So I think we are looking at a mix of the two solutions so that we continue to meet our growth projections.

Prafull Rai: So till next year given that we are at 85% and I am sure what you are saying will take some time for the capacities to come in place will we see some kind of a softer growth in fiscal 23 than we saw earlier?

Vinod Gupta: Not really. Obviously last year's growth was phenomenal because of various things but I do not see a significant drop in the growth projections and overall because it is a continuous work in progress it is not that okay now that the financial year is now starting we start looking at it. We started looking at some of these things right from H2 of last year so from October onwards we have started working on some of these things, so some capacity increment has already taken place, some will get added in say next three to four months.

Prafull Rai: In some way we can say that capacity will not come in the way for our group if there is a demand we will be able to meet..

Vinod Gupta: Yes, that is the correct assumption.

Prafull Rai: You were talking of CRAMS, so CRAMS obviously is a little higher margin business and we are saying we will start doing something this year in this space so do you see CRAMS contributing to our margin we give outlook of 2% to 3% increase that is almost 18% kind of a margin going forward in two years do you think the contributor to this would be from CRAMS?

Shalil Shroff: The important part is when we do CRAMS business is the registration so moving forward definitely where products we have been pipeline that will bring in this, the question you asked and you also answered it so that is where the growth would come in.

Prafull Rai: We can assume 20% kind of a growth for next two years?

Shalil Shroff: Again the way we are looking is that today we are at balance sheet X and we want to go to X plus, plus so it is again the registration. Like for example we launched one product during the pandemic and the registration we needed in country like in Australia and Australia themselves went into lockdown so obviously that was again one off because of the

COVID, but moving forward we believe with the war situation, with that situation assumption is yes what trend we had from 2020 to 2021 and 2021 to 2022 we expect that on a year-to-year at least we increase a little bit, but keeping that in cycle with what we have discussed with the business we believe we will be a little bit better than as I already told I think one of the participants we will be a little better than what we are for even this year end.

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

Alisha Mahawla: Hi Sir good afternoon thank you for taking my question. Just wanted to firstly understand FY2022 over 2021 the volume growth would be about 20%?

Shalil Shroff: In terms of sales we are at 670 and we are now at 932 so yes close to around 20% to 23%. You are talking about the revenue right?

Alisha Mahawla: I am asking what is the volume growth 2022 over 2021?

Shalil Shroff: Volume growth towards product sales I could not understand your question.

Alisha Mahawla: Your revenue has grown from 678 to 933 that is a 37% growth of sales. How much would be the volume growth?

Vinod Gupta: Our volume growth is about 18.5%.

Alisha Mahawla: From Q3 to Q4 of this year is there any volume growth?

Vinod Gupta: I think that is not really a right question because what happens is from quarter-to-quarter our product mix changes depending on the demand of the product so quarter-to-quarter comparison is not the right comparison because in one particular quarter depending on the season and the requirement we may supply one product and the next quarter the product may be different, but year-on-year comparison is a better matrix.

Alisha Mahawla: FY2023 the two molecules that we said we intend to commercialize that would be the key growth driver because the intermediate commercialization would probably come in 2024 so that may be some growth coming in the fine chemical segment?

Vinod Gupta: I think those two molecules will definitely be the growth driver but at the same time even in existing molecule during the last year our customers have acquired a new registration in new geographies and also trying to expand the market share in other existing geographies so the growth will be a mix of the two, both the things new products as well as growth in existing products.

Alisha Mahawla: Is it possible to quantify the two or three molecules that we commercialized this year, what is the contribution from that?

Vinod Gupta: I think that we do not want to share that particular information. Maybe as and when it materializes in subsequent calls we can have that discussion.

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

Anurag Patil: Thank you for the opportunity. One of the executives Mr. Avtar Singh from Punjab Chemicals has recently joined the group company so can you elaborate on his role at Punjab Chemicals?

Shalil Shroff: Mr. Avtar Singh seems to be an Executive Director so he is just a Board member that is about it nothing more.

Anurag Patil: So he was not involved in any kind of operational roles?

Shalil Shroff: No. He continues as an independent director on the Board.

Anurag Patil: In your presentation our long term order book number has been maintained at 1500 Crores for the last four quarters so is there any change or it is the same as of now?

Shalil Shroff: As of date the business is robust, things are going very well. As I said on few products COVID delayed in terms of registration, supply equipment, and now we have this new challenge of war so as on date we believe we are at par but if there is something unforced then maybe there is a little bit three, four, five months it depends and that again not only blames India or company by and large as Punjab it would affect the whole world.

Anurag Patil: Thank you very much.

Moderator: Thank you. The next question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: Hello team this question is on the capex so what is the capex number we are looking for in FY2023 and FY2024?

Shalil Shroff: As we already mentioned that in few calls that we had a capex of 150 Crores which we are doing we are already in discussions and I did mention in few calls that during this Q1 or Q2 especially the call when we do for Q1 once we are done we will be more specific in replying your question on this.

Giriraj Daga: So this 150 Crores is spending right this year capex of 33 Crores does not include anything on that side.

Shalil Shroff: It does include.

Giriraj Daga: It does include right so then what is the pending capex total, 120 Crores now?

Shalil Shroff: Close to that.

Giriraj Daga: Okay, the second one was a clarification. I am new to the company so do we do any formulation sales in the domestic market or is it all technical and directly B2B?

Shalil Shroff: All this is basically technical but in bulk we also supply formulation but that is again we are not in the market we just do it for customer needs.

Giriraj Daga: 100% B2B only?

Shalil Shroff: It is all bulk nothing in the market.

Giriraj Daga: Thank you.

Moderator: Thank you. The next question is from the line of Kunal M Jaguar Investment Managers. Please go ahead.

Kunal M: Yes thank you for the opportunity. Just a clarification from my end. I wanted to understand that you mentioned 60% of the business comes from contract manufacturing so that would be dedicated manufacturing for a single customer right?

Shalil Shroff: No, you cannot make 60% of our sales for a single customer.

Kunal M: Each product will have a single customer that is what I am trying to refer to.

Shalil Shroff: The product is a technology transfer, the product is domain to that customer then it is single but then we have certain contract manufacturing where we supply to two to three people.

Kunal M: The product will be a part of the registration just like what happens in pharmaceuticals where in your DNF is linked to someone it is a part of registration of the product in that market right?

Shalil Shroff: Absolutely right so what happens is that our technical product is then in the Annex III in the formulation like what technical products then it would appear as technical products supplied by Punjab Chemical.

Kunal M: Sure just one more question. Could you please mention what portion of the business is coming from products which are patented at the present so whether we are working with innovators or patented products?

Shalil Shroff: Right now we have two products which are from the innovators or patented products which have now gone off patent and that would bring it close to around between 18% and 20%.

Kunal M: They have just recently lost the patent expiry?

Shalil Shroff: Yes, around two years back but here again on both the products there is a potential growth and this year in one of the products so if we say that last year was between 18% and 20% this year would be between 25% and 26%.

Kunal M: In those products we sell to the innovator itself right?

Shalil Shroff: Yes it is their technology so it is a total buyback.

Kunal M: Thank you very much for the answers.

Shalil Shroff: This is only one customer. So there will be two products so if it is for you it is for you and the other one is for Manish then it is for only Manish I cannot offer to anybody else.

Kunal M: Got it, thank you very much all the best.

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

Rohit Nagraj: Yes thanks for the opportunity. Congrats on a good FY2022 number. My first question is in terms of the demand so currently given that there have been challenges in terms of raw material supply, the war issue or logistics issue are we seeing any challenges from the demand side of our customers or there are orders which are getting postponed because of these different sets of challenges. Any thoughts on this? Thank you.

Shalil Shroff: As on date I think somebody had asked a question to Sriram regarding the inventory so you know we have to build that inventory in terms of raw materials whether we are getting it from Europe, China, US, Japan wherever so we have done that. Answering your second question as far as today whichever customer we talk to they want one, if you are supplying one container they are asking five so we are in constant touch yes there is a challenge, after COVID is the challenge of this war logistics were cancelled but is also a challenge, but so far there is no cancellation or deferment from any customer because of logistics if you have planned to ship within the next two weeks maybe it does not happen in two weeks it happens in two-and-a-half weeks or three weeks something like that, but business wise it is pretty robust people need more materials, they understand and they are working with us so it is more like a team management which we work with our customers especially during these challenging times.

Rohit Nagraj: Right, I got it. This is really helpful. Sir the second question in terms of the CRAMS business so normally I just wanted to understand our philosophy when we are going in for these molecules so is it an inquiry which comes from the customer or we do our own channel checks and then go after a particular molecule and what kind of margin profile do we usually look at so given the current circumstances obviously it will be on a per kg margin but normal circumstances it will be a certain percentage of EBITDA margin and a live question to that for these grants, orders do we have a specific longer term time horizon and are we the exclusive vendor for the customer? Thank you?

Shalil Shroff: As you have asked that the business is of course defined in terms of the planning which we do, I think that was your first question and you asked too many questions. I got a little confused. Can you just once again come back with your question? If you ask five questions at a time, ask two, take a pause and then ask two because all questions are sometimes correlated with each other.

Rohit Nagraj: Right Sir I will just do that, so one is in terms of vendor are we exclusive vendor?

Shalil Shroff: Today Punjab is lucky and has given itself in the market where we have customers from Japanese to a European who are A listed and they know us very well so any new inquiries or any new things come generally when we exhibit or we have a newer enquiry and also please understand country like for example I give you Japan. Now in Japan it is a very close network in terms of how they look at businesses so every boss discusses with the other person that how are they faring and what are they doing and which are the good companies so fortunately not only Japan but elsewhere in the world Punjab name flags up very well in terms of quality, in terms of service, openness, transparency so that is where we get newer inquiry and obviously beyond that we also have our marketing team who are always working and hungry for newer business, newer opportunities where we understand that this company is like an MNC or a smaller company who are within the Europeans which are between 200 to say $800 million are looking for supply chain so we approach them, we talk to them and generally what happens is that Punjab becomes a better partner for them because they know that we are talking to the MNCs, the big companies like the Japanese like Nippon Kayaku so this brings a little bit knowledge in terms of them to ease the business with us to take it forward and of course our ongoing our marketing team through exhibitions through our various business technologies or the technique or the formula of success which we know. We follow that part to tap new customers.

Moderator: The next question from the line of Dhaval Shah from Svan Investments. Please go ahead.

Dhaval Shah: Sir two questions: the first is the 50 Crores capex which you would be doing. What sort of IRR do we have in mind for this capex?

Shalil Shroff: Any investment which we do as per the industry. Today if you put in a dollar what is the return of investment you are looking at so anyway it depends on the product cycle and how many steps of synthesis which is there so if I am putting in a dollar I look at anywhere between $2.5 to $4 depending on the product cycle.

Dhaval Shah: So if you are putting a dollar you look at $2.5 to $4 of revenue?

Shalil Shroff: Correct. It again depends on the product if it is a two stage, four stage, six stage depends on the product cycle.

Dhaval Shah: So considering the working capital cycle and the asset turnover plus the last two years of inflation what we have seen in our capital equipment what sort of IRR you would be negotiating with the customer given you are in a contract manufacturing business?

S Sriram: When we discuss with the customer when we look at what the kind of margin we do with them and also if you look from the angle of IRR we look to close around 22% to 25% kind of IRR.

Dhaval Shah: So we are considering total capital invested in the business. What sort of increase in capital equipment cost have you seen over the last two year period?

S Sriram: Last year we invested close to around 30 Crores basically for asset renewal programme, so similar asset renewal programme we will be having for the current year and in addition to that if we sign up a contract with the customer that can be having additional capex.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good afternoon Sir. One clarification: did you mention that Metconazole sales will double for next year?

Shalil Shroff: Absolutely.

Aman Vij: Sir if we look at our top two molecules for the last two, three years it has not grown much, is my understanding correct?

Shalil Shroff: See again a product like a Metconazole was under re-registration and generally again please keep that in mind two years was lost basically on volumes in terms of existing products and in terms of newer customers because people could not meet, there was COVID challenges, maybe the contracts were signed but delivery of goods such as vessels, reactors, etc., were delayed I think these two years were exceptional, but moving forward we hope again keeping the war situation as I said we all pray that things should fall in place and maybe as I said on a year-to-year basis you will see more and more improvement in terms of the performance of the company.

Aman Vij: So on these two products only what kind of volume growth do we see in these top two products for next one to two years now this registration issue has gone?

Shalil Shroff: As I did mention, one of the products is Metconazole as we already said that what we did last year would double this year. The other product which we are already doing would grow by maybe close to between 8% and 10%.

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

Chetan Phalke: Good afternoon and thank you for the opportunity. Sir I just wanted to understand on the R&D front can you just elaborate a little on a roadmap let us say what is our current team size, what are we planning in future, how much are we spending today versus how much can we spend going forward because right now we are focusing more on contract manufacturing with let us say clients like UPL, Adama, Nippon Kayaku, etc., but can our company be in a position wherein we can supply products to them going forward?

Shalil Shroff: I think I will just take one and then maybe Vinod can add me. Companies such as Indian or Europeans are not innovators so today if any company tells you that I have done and innovated a product no but yes we do work on products which go off patent which we do with the existing processes available, so if you are talking about innovation no Indian company is an innovator other than we are seeing few Japanese so that should be my remark on the product, but maybe Vinod can elaborate more on what we are doing in R&D and our focus areas.

Vinod Gupta: What we do generally is once we get an interest from a customer then either we may have an existing process or we might be asked to look at some literature surveys. So our R&D team actually picks up the most efficient route based on the situation and the raw material availability within the country. Now on R&D front obviously we are augmenting our capacity. During last one year we have added couple of more PhDs and some more scientists who are team fundamentally focusing on both the intermediates as well as any specific interest that is coming from customer where customer is asking when this is the product that we want this is the growth projection we have can you develop this product for us so that is where we take it up from right from starting from laboratory trial to piloting to end stage so that is the roadmap fundamentally we want to further increase the size of our R&D and R&D sector so that we can provide end-to-end solution to more and more customers.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Yes thanks for the opportunity my question pertains to the next two three products that we may see by 2023, 2024 these would be patented or are we also looking at products which include site transfers?

Shalil Shroff: Basically generic products.

Jigar Valia: So in that case, is it fair to assume that the ramp up has to be gradual as the registrations and the sales pick up over the few years within the specific countries of registrations?

Shalil Shroff: Of course, because today they have an existing source which they want to discontinue so it takes time and as I said depending on the country, sometimes it takes three months, maximum four to five years.

Vinod Gupta: I think in some products like a couple of products we have introduced during last year, we have given two or three products where we have done research and piloting work and those samples have been given up for registration. Now those registrations will take whatever time it takes and that will also come to our portfolio.

Jigar Valia: Generally we have been winning certain contracts from existing peers within the country itself right or is it generally from the other high cost locations to here is what generally has been the bulk of the growth strategy on the CRAMS?

Vinod Gupta: I think it is a mix, so we are getting some contracts from new customers or a new product from the same customers and it can be from any geography so it can be either from Europe, India or Japan we are getting from across the board.

Jigar Valia: So given the profile of the products that you are getting into and not the specific so incrementally over the next couple of years will the gross margins be sustained or as a trajectory one can see a further improvement which is possible on the gross margin side?

Vinod Gupta: I think Mr Shroff has already said our overall objective is to increase the topline as well as gross margin so that is where we are looking at increasing our EBITDA margins by 2% to 3% over the next two to three years by product mix, by capacity utilization and efficiency improvement and this is going to be a mix of initiatives that is where we look at better margins going forward.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question. I now hand the conference over to Mr. Nachiket Kale.

Nachiket Kale: Hi, thanks everybody. Thanks for participating on the call and really appreciate you taking out the time and asking detailed questions. For any queries you can get in touch with us Orient Capital investor relations advisor to Punjab Chemicals and you can get in touch with our contact details mentioned in the presentation. Thank you so much.

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