"Punjab Chemicals and Crop Protection Limited

Q4 FY '23 Earnings Conference Call"

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MODERATOR: MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen, good day and welcome to Punjab Chemicals and Crop Protection Q4 FY23 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Mr. Mahawar.

Manish Mahawar Thank you Tanvi. Warm welcome to all the participants on the Q4 FY23 earnings call of Punjab Chemicals and Crop Protection. From the management, we have Mr. Shalil Shroff, MD, Mr. Vinod Gupta, CEO and Mr. Ashish Nayak, CFO on the call. Without further ado, I would like to hand over the call to Mr. Gupta for opening remarks, post which we will open the floor for Q&A. Thank you and over to you Mr. Gupta.

Vinod Gupta: Thanks Manish and good afternoon to everybody on the call. With me in the room is Mr. Shalil Shroff, Managing Director and Mr. Ashish Nayak, the CFO of the company. So all of you must have already seen our investor presentation which is already uploaded on our website. If you look at the year that has gone by, we started the year on a very positive note which was maintaining the momentum of growth that the company has built over the last few years. However, during the last quarter, there was overall correction that was happening in the industry where industry was struggling with two challenges.

One was the inventory correction and second is the price correction and that is what actually resulted into slowdown in demand for some of our products and this is where we have seen some challenges in the results of Q4. But as a management, we strongly believe this is an aberration to the growth journey that we have sort of started a few years back. Even in this complex market condition, we basically have been able to perform good on some products, some products where there was a muted demand in the last quarter, that demand has started picking up. Also, given the market dynamics, we are recalibrating our growth strategy and also we are improving our processes.

In the last few years, if you see the way the company has moved, as the company recovered from the past setbacks, the board has consciously decided to professionalize the management and that is where the complete leadership team has been rebuilt over the last two years. I joined the company about two and a half years back and with me, a lot of other professionals have joined. In this last two years, we have strengthened our processes, we have strengthened our technical capabilities, we have strengthened our EHS processes which definitely is very, very critical given that we are looking at acquiring or rather partnering with a lot of overseas and international customers.

Also, we are focused on asset reliability, asset renewal and we have also invested continuously in addition of capacity for the products where we see new growth. Also, in recent past, now we have started rebuilding and strengthening our R&D team. Recently, one very senior person who has a more than 30 years of experience with companies like Bayer, Meghmani, PI Industries has joined us and this R&D effort basically is helping us to build a product portfolio which will add to growth of our company. We basically are adding more resources, more infrastructure, also tying up with some universities for strengthening our R&D effort. I am also happy to announce that we have developed several products during last year. These products where we have done in some products, we have done R&D and piloting. In some products, even we have delivered commercial samples to the customers and these products are now getting lined up for commercial launch in the market. We are focused on the zool chemistry where we are capitalizing on our strength of bromination as a chemistry. These molecules, whatever we are doing work upon, we are basically developing molecules which will have a growth potential and in the market for next 15 to 20 years. So, those are the kind of molecules that we are focusing upon. If I look at the next year, mainly the focus we will have, on three fold initiatives.

One, we have actually interacted in last one and a half years with lot of MNCs and we have discussed possibilities of product development, manufacturing contract for long term and as a management we believe we are reaching a stage where we will start signing formal contracts during the year. So, that will be the first focus area for our group. Second, also the whatever molecules that we have developed, we believe that now we will be able to capitalize once the market condition stabilizes and we are in touch with both local as well as overseas partners to take this to commercial scale and finally, we want to also continue to focus on our R&D initiatives where we want to improve competitiveness of our existing products and also the new products that we have developed.

So, that initiatives will continue. Energy prices have continued to be high and that is where we have started looking at alternate fuels. So, we probably will invest during the year on an alternate source of energy so that our energy cost starts coming down significantly. So, this is the kind of initiative that we are taking to make sure that the growth journey, the profitability, everything continues in the future.

Now, I will hand over to our CFO, Mr. Ashish Nayak to take you through the numbers and I also welcome him to the call because he joined us recently and he brings in about more than 26 years of rich experience and he has worked in multiple high growth sectors like chemicals, pharmaceutical, engineering and retail. We are sure that he will play an instrumental role in the coming years in the growth of the company. Over to you, Ashish.

Ashish Nayak: Thanks, Vinodji for that. Hello everyone for connecting us with us on the call today. I will briefly summarize our financial performance for the quarter and for the year. On quarterly performance, revenue from operations for Q4 FY23 was INR195 crores. The trend has been positive for the year as our FY23 revenue of INR1006.21 crores is almost 7.8% higher as compared to FY22. In FY23, the export market share has increased to 56%. The gross margins have remained steady for the quarter at 38.8% and 36.8% for the entire year. EBITDA has been relatively flat year on year while the margins are lower.

We registered an EBITDA of INR21.2 crores with 10.8% EBITDA margin in Q4 FY23. For FY23 full year, the EBITDA stands at INR122.6 crores with a 12.2% EBITDA margin. The net profit for the quarter stood at INR3.2 crores and for FY23 at INR61.1 crores. PAT margins for Q4 and FY23 is 1.6% and 6.1% respectively. During the year, we have added fixed assets of INR29 crores which is primarily towards upgrading technologies and infrastructure at the manufacturing facilities. With this, I conclude the presentation and open the floor for further discussion. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask the questions may press '*' then '1' on we have touched on telephone. If you wish to remove yourself you may press '*' then '2'. Participants are request to use handset while asking a question. Ladies and Gentlemen we will wait for a moment while the question quize assemble. First question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes sir, on your revenue performance for the Q4, in the presentation you have mentioned that it has been on backdrop of lower demand in domestic market because of weather conditions. Now, this comment specifically seems to do with the domestic local Ag chem. But the extent of drop that we see in the domestic business is quite significant and if you could tell us the other pieces of the business i.e. industrial and pharma, what happened there because the drop cannot only be explained by domestic Ag chem.

Vinod Gupta: I think domestic Ag chem is the largest part of our portfolio. So, any drop there obviously impacts the overall performance. Industrial chemical has been steady. In fact, industrial chemical has been performing very well for last 7-8 quarters. So, that performance is steady. On pharma side, yes, we have seen some slowdown and some small impact of pharma was also seen. So, overall drop in the performance is majorly impacted by domestic demand. Also, we have seen some drop in the exports demand where especially in Europe, there has been an inventory correction and impact of this price reduction because the prices in the market have gone down after China has opened up.

Pritesh Chheda: Sir, can I intervene here? I cannot comprehend it because 50% what we have is, in our understanding, your Ag chem to non-Ag chem split is 65-35. In that 65 Ag chem, 80% is export and 20% is local. So, which means about 12-13% of your total business is domestic Ag chem. If 12-13% of your total business is domestic Ag chem, then I cannot interpret the comment that you have made on the erratic weather condition.

Shalil Shroff: No, no, please understand is that, during our calls, we have always told you that Q4 was a challenge. The challenge is because one is that the inventory correction. Please understand during COVID time, people have bought a lot of products and also you can see that during the year 23, the weather overall has been 22-23, the weather has been a little different. So, it is not that the business is lost. Because of the inventory connection, we could not in Q4 achieve the target which we had planned, which of course, as we talk, going into Q1 of this financial year is back into track.

Pritesh Chheda: The slippage in the quarter 4 number, sir, have not been, because there was a call in February also, but the slippage in the quarter 4 number is far higher than what even was ever talked about in quarter 4, or post quarter 3 call.

Shalil Shroff: I agree with you. I am not trying to dispute that. But again, as I said, it was the inventory connection. When we did the call, we were well assured with the customers that they will pick up this quantity. But please understand, with all our customers, we talk long term business. So, somewhere we have to give and take.

But having said that, let us not focus on Q4. Let us look at what is going to happen in the next year. And we believe very strong growth we have in terms of the products, not only the existing, but new ones. So, this is just a phenomena for the Q4, which has reflected, which would have been a little better. But yes, to the expectation, to us also, it is not. But now that with the customer, we have some sort of a long term understanding. And again, reassuring with all our partners, globally and locally, we believe and we are very confident that the quarters coming for the next financial year are going to be very robustic.

Pritesh Chheda: Can you share the progress on those 4 products, which are awaiting approval, 2 which were pending since last year, and 2 which are lined up for FY24?

Shalil Shroff: So, generally, when we talk of product profiles, we have a lot in pipeline, but just focusing to your question, one was the pharma intermediate, you will appreciate that the pharma market has also gone through a little bit of turmoil. You would know better than what I would know. But having said that, we are in line with the customer and we always have to work with them. As I did mention in few calls that we had planned to launch this product last year, but unfortunately, we could not. So, at the moment, there is further delay because of the customer getting his inventory correction at his as well as customer level.

Regarding the 2 agro products, one agro product, as I did mention that we have already got our EU approval for the herbicide which we would sell, which was again for the Australian as well as the European market. Looking at, because please understand, Europe is not one, there are many states.

So, there is a regulation in Switzerland, a different regulation in the Netherlands. So, having said that, we are very confident that by September and post-Jan of next year, we should have full-fledged registration of these products. And the one more agro product, which is already under a 5-batch analysis, which should come in stream for the data collection at our office, I mean at Punjab in the next 3-4 months. Once we have that, it could take anywhere between 6-8 months for registration.

Pritesh Chheda: From your comments, can I conclude that a lot of it is delayed and none of the four products now should be expected in FY '24?

Shalil Shroff: I didn't say that. You didn't listen to me properly, my friend. I did tell you that one product is already upstream, the second registration is already in September, we start. The third one, which I said is going to take time and the fourth one, the intermediate, would again start in September, for which we had envisaged that we could do it in Q1 or Q2, but it would be spilling to almost Q3.

Pritesh Chheda: So, the first and the second has been received, the registration, is that?

Shalil Shroff: That's right.

Pritesh Chheda: Which was pending. So, one was a KSM and one was the ACAM for Brazil?

Shalil Shroff: That's right.

Pritesh Chheda: Those two have been received.

Shalil Shroff: Yes, we have already got in, we have already started our sales and we believe, because the season of this product is anywhere between November to, I would say, February-March. So, last year we have captured and that's where I said the sales would reflect post Q3.

Moderator: The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Thank you for the opportunity. I had two questions. One, when you say the entry of Chinese manufacturers dampened the pricing in the market, that would largely happen if you have significant spot sale happening. Would that be a correct assumption?

Shalil Shroff: See, please understand that China for almost two years was not opened up. Raw material prices had gone very, very high. So, at the moment, China is a little desperate because overall, as I did mention, and because of the inventory correction. So, I also personally believe that China is a little desperate right now to sell at maybe 20%, 30%, 40% cheaper. But it is again a phenomenon which I believe should, if we look at from the European point of view, by Q2, it should be okay. And for the Indian point, it would be from even Q1, gradually the prices should be back to where they were.

Vivek Ganguly: Right. So, your expectation is by Q2, things should start settling down where, the market is more or less than again squared up and so on and so forth.

Shalil Shroff: Yes. Generally speaking. Because, in Q4 also the sales because of the inventory correction. With all our customers, we have looked at it and we have discussed with them and the inventory levels have gone down. And that's where we, starting with this Q1, Q2, what we have discussed with the customer, we would be back on track as we were last year, maybe a little bit more by adding more products by Q2 and Q3 in terms of newer sales revenue.

Vivek Ganguly: So, from, please indulge me a little more. So, from where you all have the longer-term contracts, while the offtake has been lower, would it be fair to assume that, the pricing is more or less indexed to the underlying raw material and you all have not seen any sharp downturns there?

Shalil Shroff: Yes. So, two things is, also raw material prices, which were bought at a level. Fortunately, with Punjab, we did not have such high inventory, but the raw material prices also have, which were at the high have been tapered down. So, moving forward, we do not foresee, but we have to be competitive in terms of, getting into the market share.

Vivek Ganguly: Yes. Right. And one just wanted to understand the provisions that you have made, the INR3.8 crores for taxes and about INR1.8 crores interest provision. If you can just understand this, it will be very helpful. And would these, these would be, accounted for above EBITDA, right?

Ashish Nayak: This is below the EBITDA because this is towards taxation and interest finance cost. Let me explain as to what is the reason for that. In 2012-13 onwards, for a few years, there were some delays on deposit of employee contribution towards PF. The same were deposited before the due date for filing of the tax returns and we had avoided the disallowances. However, in FY '22, the Honourable Supreme Court had given a verdict to disallow the amount deposited after prescribed due date. Accordingly, the provision for tax of INR3.86 crores and interest of INR1.84 crores has been recognized in this financial statement.

Vivek Ganguly: So, these two would be one-off things and there would not be any other matter pending?

Ashish Nayak: Fully agreed. These are one-off things and there are no further other matters which are pending.

Vivek Ganguly: So, if these were not to be adjusted for, then your PBT would have been higher by these two amounts?

Ashish Nayak: Yes.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Yes, hi. Just a question on the top two products, the Metamitron and, Metconazole. So, is there any shift in volumes are you seeing because we heard one of the peer company also signing a CMO order from a Japanese client. So, are you seeing some shift in volumes?

Vinod Gupta: So, I think on the two molecules, the Japanese molecule, basically our capacity is fully utilized. And we don't see any challenge there. And as far as Metamitron is concerned, this is more about market inventory correction, that inventory correction is now getting over. And we don't see or rather, in fact, our forecast is that we will be similar or higher volumes in the current financial year.

Ravi Mehta: On both the molecules or on Metamitron?

Vinod Gupta: On both the molecules. So, on the Japanese molecule, we were fully sold out, our capacity is fully utilized, that will continue. And on the other product, our volumes will be similar or higher than this year in the coming financial year.

Ravi Mehta: Okay. So, also, I didn't see the order book number in the presentation. So, can you share that?

Shalil Shroff: So, I think we had shared for the last three years, our order book was INR1,500 crores. And I think during the call, we had tapered it down, to around 13 to between 1,250 to 1,300. Moving forward, in the next five years, the way we are looking at the existing business and the newer business, we are looking at easily another INR1,500 crores, which would come in. Obviously, it would be partly within the existing molecule, enhancement of capacity and newer products.

Ravi Mehta: Okay. So, just lastly, if I can touch upon, maybe this year, you're seeing this headwinds of inventory and price correction, which should ease out in coming quarters. So, any roadmap of how you look at, maybe this year can have a hiccup, but how you look at the coming year and as you're planning, we've been hearing about your roadmap that you've been articulating. So, any changes there and how are you resetting the path, if you can just throw some light on it?

Shalil Shroff: So, as we said that, because of the inventory correction, we did change our forecast. But moving forward, what we have said, we believe strongly that it would be as planned within our business towards the coming years.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Good afternoon, sir. So, the first thing which I want to understand is on the volume and capacity side, like if we look at the cash flows, we have been continuously investing into our capacity of addition and improvements. So, can you share what is the kind of capacity that we have been able to increase? Because when I see the production volume, I think it was around 20,000 in 2021, and it is 24,000 now. So, this year, we haven't had too much of volume growth. And the utilization is also similar. So, what is the capacity buildup increase that has happened?

Vinod Gupta: So, I think our capacity addition is taking place in two parts, where I think some one part is we are basically debottlenecking some of the plans with small investment. And that's where the capacity addition is happening. However, our larger capacity addition has been on a herbicide where we have actually increased our capacity from 300 tons a year to now 800 tons a year. And that was the major investment in last year. And that particular product we are hoping to more than double in this year.

Ayush Mittal: But overall capacity, what is our overall like stated capacity and how much have we increased on that?

Vinod Gupta: So, overall capacity increase, I think if I look ate because, we normally declare from site to site, for the Derabassi, it has been roughly about 2,000 tons during the last year. On the Lalru site, we have added this particular one more intermediate, where we'll have an addition of capacity over 1,000 tons.

Ayush Mittal: Okay. So, now, the second part of the question that aspirationally, we have been talking about going to be at least a INR1,500 crores turnover company and with much more improved margins. However, we are seeing that some of the delivery is not happening. And even on the margin side, we are on the much lower end and we keep getting hit on that. So, first, how will that part happen? Because the capacity I don't think so addition has been so much that we scale up to that point. And can you please share more on your roadmap?

Vinod Gupta: Yes. So, I think, yes, we basically have been talking about INR1,500 crores. Obviously, there has been last year has been tough because we started seeing first the pricing and margin pressure starting from Q2 onwards. And then towards the year end, anyway, there was this inventory correction factor which came in. Now, obviously, I think right in the beginning of call there was talk about say, three, four molecules, which we have announced two years back.

But that's not a constant kind of a thing. Because if I look at last year, we added one more fungicide, where we did first, it's a 12 step process, where we first did the laboratory trial, then we gave commercial samples of a one ton to the market. And now currently, we are in the process of making about 20 tons of that product to be delivered to the market. If all goes well, that product will gradually ramp up to maybe 200 to 300 tons in a year. So, that kind of dynamic adjustments is what we are carrying out.

We are confident that we will be able to deliver 20% to 25% growth year-on-year. That's one. Second, we are also seeing pressure on the margins. And that's where we are now looking at aggressively looking at improving our efficiencies, reducing our fuel cost, so that our EBITDA margins, again, go back to the year numbers, which were we had given in the previous year, and may further improve. Shalil, do you want to add anything?

Shalil Shroff: Yes, I think it's perfect. I think it's very important for us is the focus, as Vinod, in his opening remarks mentioned is R&D. And I think the two or three, three, four products where we almost are dominating exports out of India, and we believe we will do that. Okay, in one or two products has been a little low because of the correction. But I'm very confident and happy to share with all of you that the R&D team has done a fantastic job. And you will see in the coming quarters, when you see our numbers on a quarter to quarter basis.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, so first of all, I just wanted to understand in terms of inventory correction that you mentioned, right? So as we speak now, that in inventory correction scenario, are we over with or there are further inventory correction that is happening?

Vinod Gupta: Okay, so I think there are two parts. One, when we talk about inventory correction, we are talking about inventory in the industry. In Punjab, we don't have any high cost inventory. So there are no going to be any negative impact in terms of any raw material price correction or anything that we need to do. Second part, this inventory correction phenomena, if I look at it, now sitting on the 5th of May, that is now sort of we see some signs of improvement, and product movements have started. So maybe it will last for another two, three months, and then probably most of the products will go to full scale.

Shalil Shroff: But just to add, like, when you said inventory correction, to make it more clear, the products which did not move during Q4, during Q1 of this financial year have already started moving. And we see we have been reiterating with the customers, not only Europe, but the rest of the markets and it's going very good. The customer who was asking for one is asking for five again.

Deepak Poddar: Okay, understood. Yes. So I was also referring to inventory correction in industry only. So now with the current scenario, the margins that earlier we used to talk about was 18%-20%. I mean, so are we looking to kind of tweak the range maybe somewhere little on the lower side is regarding the sustainable kind of margins that our business can see given the scenarios?

Shalil Shroff: So whenever we have talked of 18%-20%, we have said that we when we get into a product mix, and that would be post 25, because we're looking at higher products, please understand, we went through a difficulty and now what products we are looking are between $50 per kg, $100 per kg, $200 per kg, $300 per kg. A customer has looked at Punjab over the years has looked at the balance sheet, has looked at our cash flow and they're very confident. So, these newer businesses would help us or would add to our margin and that's where we would arrive.

But talking of this year, we should be I mean, our target is around, between 14% to 15%. That's what we are targeting for the financial year of '23-'24.

Deepak Poddar: FY '24, 14% to 15%. But would this be fair to say that the margins that we have seen in the fourth quarter that's the worst I mean, that has bottomed out given the things are on the improving trend as we speak and in coming quarters?

Shalil Shroff: Yes, as I said, don't please compare Q4. Q4 was again inventory correction and as also there were some unwanted one-time adjustments, which we had to do but as we see moving forward, there is nothing and we are back on track. So don't judge us by the Q4. Moving forward, we are absolutely on track. The order book is on we have discussed with the customer and as I again repeat, our R&D is working very, very hard. And as I said, was happy to express that we will be to the fullest of our capacities. Having said talking to all our customers overall, moving forward is looking very robust. Yes.

Deepak Poddar: Understood. And the point that you mentioned, I missed that. What is the one-off adjustment in fourth quarter?

Ashish Nayak: Well, is there primarily on account of provision for taxes, something which is below EBITDA.

Shalil Shroff: Before you, the gentleman had already asked. One of provision for taxation and finance costs, one-off.

Deepak Poddar: No. That I understood.

Shalil Shroff: No, there is there is nothing else.

Moderator: Deepak, I would request you to please come back in the queue. We'll move to the next question from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Yes, thanks for the opportunity. So before I ask a question, just a house-keeping question. Our receivables have gone up significantly despite a flattish end of revenue. So any clarification you have, any factual over there, anything you would like to highlight?

Ashish Nayak: Yes, basically what had happened was in the fourth quarter, there were some sales that have happened, which happened in the month of March. And as a result of which, the receivables in absolute amount has gone up. Yes, so that's the main reason. But there's nothing to worry. I mean, those are being recovered in due course.

Chirag Shah: Okay. And I have a slightly different question for you. So if I take a step back and if you look at last so many quarters, there have been some or the other disappointment which has been happening either on the revenue front or on the margin front. And when I look at it, well, when I compare with some of your peers who are infant comparable partner of business, we seem to have been affected more. So if you have to summarize your past so many quarters of experience, how much is with respect to complete specific execution issues, or were you overestimating? And how much is it specific to industry? That is what I think most of us are trying to understand. Because your outlook generally tends to be reasonably positive six months out. But somehow, something is not playing out for us. If you could break up, it would be helpful for us.

Shalil Shroff: I think, me and Vinod mixed would reply. I would just go back, as we did mention in Q1, Q2 calls that the fuel cost like Rice Husk, for example, and which what we had planned as per our AOP, the prices were high. Also, please understand that during that time, there were monsoon, where makes this Rice Husk wet and then to use it, the calorific value also goes down. And all our business, which we do with the customers is always fixed.

And at that time, during Q1, Q2, because of the cost in fuel, the cost with power, because there was a little power interruption also in Q1, Q2, and in which we had to use other sources of power and which was expensive. And we could not pass that to the customer. We have reiterated to the customer. I think I have always, I have also spoken about this on the Q3 call. And they have well understood. And we have made it very clear to them that during the next coming years, whenever this happens, we need to address it and rectify it.

Chirag Shah: So, I was more referring to the product side.

Vinod Gupta: So, I think, let me further add to what. So, if I look at FY '22, our revenue growth was part of two things. One is raw material price increase and second is volume increase. Now, 60% of last year's growth, I mean, when I say, everything because we had grown about 35%, 20% of that came from volume growth. This year, despite the last quarter being slow, we have actually been able to maintain same levels of volumes over at an overall level.

So, as far as product volume is concerned, we have been able to manage our market share. Now, this is possible mainly because as the high prices were there, sometimes, as I think in earlier calls also, we said in certain cases, along with our partner, we decided, okay, we will play the market share game when the market is stopped, so that when the market recovers, we are able to grow the market further. So, that is one reason why we sort of have seen slight underperformance.

Second reason, obviously, in terms of EBITDA, if you see the top line, because the raw material prices are higher, our margins are more or less fixed. In terms of percentage EBITDA, you will see a slightly lower number. If you adjust it for the raw material prices, our EBITDA is not hit as so much as it gets reflected in absolute numbers.

Chirag Shah: Sir, my question was more with respect to the product delays that we have seen or the revenue projections or expectations that we are having from new products, which will flow from the customer. Okay. Even there, we have seen some delay, some lags. Again, it is more driven by industry and what end customer if you see, or there have been some other challenges at product level itself. I know the registration issue that you have been highlighting since the last 12 months, there have been delays in registration, which is beyond your control. So, I am aware of that.

Vinod Gupta: So, I think, as Shalil sir has already said earlier that there was some issue related to registration, which resulted into delay. One product where we had forecasted some growth, that is more around market phenomena, which now again, we have restarted. And I think this year, as I said earlier, this is a product where we will double the volume in the coming year. That is the kind of projections we are getting from the customer based on his market assessment.

Chirag Shah: And Sir, last question, if I can. Just seeing in the past, you have been even alluding to your aspiration to build a INR2,500 crores to INR3,000 crores of order book in phase 2. There would be some delays, I understand, given the market situation, but that aspiration still stays or that gets pushed out to a much longer time duration?

Management: No, I think very much. I think, as I have always spoken, that Punjab, our customer base is very, very strong. And with every customer, we have already signed contracts that how we can take this $1 to a $3 to a $5 to a $10. So, we are very positive and the way we have discussions, the way we have MOUs, the way we have long term understanding with the customers, we are very much on track.

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

Rohit Nagraj: Yes, thanks for the opportunity. So, my first question is a generic question. So, we have also alluded that in terms of inventories for Punjab Chemicals, in the channel, we are relatively having the lower inventories. And generally, all the listed companies have also alluded to the theme that their inventories in the channel are lower. So, who is actually, who has filled up the channel over the last maybe couple of quarters? And other question being that, I mean, other factor being that China was also not very active during the last couple of quarters. So, just a generic understanding from your side, from the industry perspective. Thank you.

Vinod Gupta: So, I think, as far as who is holding the inventory, that's the inventory, because if you look at mainly from the export market, it's lying somewhere overseas. So, probably you will not see much with the Indian player. And that's the same case with us also. Coming to your second question. Can you repeat your second question?

Rohit Nagraj: Yes, I mean, since China was not there in the last six months, so why there has been such a high inventory in the system, both domestic as well as to some extent in globalization?

Vinod Gupta: This inventory built-up was happening over the last two years, where people were not sure about supply chain. So, at any time, there was because there was frequent lockdowns happening in China. And China is still being a major player, people were sort of concerned that, one fine day China stops, when they will not have the product available. So, that's where the buying continued, continuously with a worry of disruption in supply chain. Now, with

China opening up with market getting slight confidence that probably those kind of instances won't take place, I think the industry has sort of looked at inventory as correcting it.

Now, China opening up has two kind of impacts. One, obviously, with the product price go down, but at the same time, raw material prices also go down. And as the raw material prices go down, we will again be more competitive. And that will further boost up our growth, because we have actually been able to sustain our market share during the last two years in the market.

Shalil Shroff: And just to add, the other thing which Punjab, which we do and we feel very proud about it, is that our dependability on China, we want to get away. And that's where, few of our main products, AIs, Active Ingredients which we make, we have developed domestically, the sources for these raw materials. So, we do not rely so much. And overall also the customers are now looking at that, you know, how much is your dependability on China? How much are you doing within yourself and India? We as Punjab cannot do everything, but, we partner up also with good companies. And that's where has played a very positive note among the customers. And that's where we see. And that's where I think the question was asked by the other gentleman that, are you very confident? And yes, we are very confident because we know the products which are in pipeline. What we have not only looked at the product, but we have looked at the downstream raw materials also. Other than may be we take a kick-start from buying from Europe, China, elsewhere, but eventually we are also looking at having it made in India.

Moderator: Sorry to interrupt. Rohit, I would request you to please come back in the queue. The next question is from the line of Dhimant from ITI Mutual Fund. Please go ahead.

Dhimant: Yes, thanks for the opportunity. Two quick questions. You have enumerated the pipeline, which looks exciting, out of which four is likely to contribute. So, in your sense, what could be the total size of opportunity if, let's say, if one kind of assumes that the entire pipeline is available today for monetization?

Shalil Shroff: I did mention 1,500.

Dhimant: So, that 1,500 incremental is coming from only this pipeline of new 15 products?

Shalil Shroff: That's right. That would be out of that, maybe between 15% to 20% would be within the existing products and enhanced capacity. And the balance is coming from new products in terms of breakup between Ag chem and intermediates. Major would be Ag chem.

Dhimant: Okay. And secondly, a couple of questions have already been asked by various participants. Just to delve a little bit more on that, specifically last two or three quarters, is it that, one or two large customers have not taken, kind of, normally you would be doing a volume contract, sort of take-off pay, and with certain costs benchmarked or indexed or whatever. And you had alluded that, except for the power cost and in certain cases, a few raw material which got out of hand, we were almost there. So, specifically in light of Q4, are we taking steps to further tighten our contract so that, I mean, we don't face such kind of, great surprises?

Shalil Shroff: Yes, as I did mention that, the Q1, Q2, because of the husk and power and other thing, and we were already in contract. So, as I said, we have reiterated to the customers and we have, because this uncertainty also, if it goes beyond a point, so we have addressed it and we are in sync with the customer.

Dhimant: You have kind of, taken all the nuances into consideration which can possibly impact us and beyond a plus minus percentage, the client would be, should be or rather should be willing to bear whatever.

Shalil Shroff: That's right, for the coming financial year that is '23-'24 and moving forward.

Dhimant: Yes, and lastly, as an associated question, you mentioned INR1,400 crores, INR1,500 crores and also the underlying is that about 20%-25% growth. To achieve this, what is the incremental capex spend that you foresee in the next two or three years? So, I think including the multipurpose and the power correction that you wanted to.

Vinod Gupta: So, I think year-on-year, we have been investing both in asset renewal as well as capacity addition. Now, the way we see the next year, obviously, the investment will be one to reduce our energy cost. Two, to increase our capacity, so that some of these products that we have mentioned can basically, it can meet the requirement for next two to three years.

Post that, actually, what we are looking at is, we are looking at it comprehensively across the product basket and we will have a significant investment starting maybe somewhere in Q3 of this year for next 12 months to add significant to our capacity. Now, we are still working on that plan. So, the plan for the year to capitalize some of the opportunity that we have violated in our presentation is already in place. However, the bigger investment which will be sort of a large investment will kick-off in Q3 of this year and that project duration will be about 12 months, 12 months to 15 months.

Dhimant: This, I guess, would be an MPP. So, you would need to spend at possibly a Lalru because Derabassi is almost full or does it involve a third kind of…

Vinod Gupta: We are looking at all the opportunities, but I think you got that right. It will be mostly at Lalru, but we are looking at other opportunities also because beyond a particular point, even Lalru will get saturated. So, that activity will also be undertaken in this year.

Dhimant: Okay. Great. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, we request you to please limit your question to one.

Management: I think let us take one more question and then because we have another call then in the next half an hour.

Moderator: Sure. The next question is on the line of Pratik Banthia from Girik Capital. Please go ahead.

Pratik Banthia: Hi, sir. So, just one question from my side. So, in the initial comments, you mentioned that you will start signing formal contracts in FY '24. So, could you elaborate on that? What do you mean? Will it be different than what we have been doing in the past in terms of the size of the contract, the kind of molecules? Yes, some bit of a [thought 0:47:14] thought on that.

Vinod Gupta: See, actually in last nine months, we are actually having at least one visitor from overseas or Indian companies to our factory more or less every fortnight. So, this has been around discussing very specific products, specific molecules and these are now reaching a stage where we have discussed the products. Some products, if it is a technology transfer, documents have been shared, NDAs have been signed. In some cases where we were supposed to develop the product, we have developed.

Now, in next few months, those will get some sort of formalized and that is what when I made, that is the statement I made in my opening remarks that whatever groundwork that we have done in last nine to 12 months, that will start fructifying and it will be formal contracts, multi-year contract with take-home pay clause, with raw material, all other costs are margin sort of clearly marked out in the agreements.

Pratik Banthia: So, such business has not been transacted in our recent history for the company, right?

Vinod Gupta: We have done one. I think one Japanese company, we started this product about 17 months, 18 months back. So, that is already going on and one more contract we signed. Now, some more are in pipeline.

Pratik Banthia: Okay. And in terms of complexity, how would you rate the future contracts?

Vinod Gupta: These will be, I think, multi-step processes. For example, I think I gave an example of one product where it is a 12-step process.

Pratik Banthia: Yes, fungicide you mentioned.

Management: Yes, fungicide. So, similarly, most of these products will be minimum five steps to seven steps. So, these are not single steps. These are minimum, mostly five steps to seven steps, but it is more in synergy with the chemistry that we do right now. Obviously, we are looking at new chemistries also, but at the moment, it is more around synergies with our chemistry, but it is a multi-step process.

Also, in a lot of these cases, we are looking at backward integration either within our factory or within India, so that the supply chain sort of remains secured from any shocks that come from any other market.

Pratik Banthia: Okay. And just one clarification. You mentioned about the new products. Did I hear it correctly that you will be looking at $50 to $300 product basket range versus the current might be much lower than that, is it right?

Management: That is right.

Pratik Banthia: Okay. So, higher would mean a better, like a more complicated product and a better market.

Shalil Shroff: I think, again, as Vinod said that every step or any reaction, I would say we do. So, you determine your safety, your parameters, health, safety, environment, which is very, very important. So, based on that, and now with the balance sheet size and all where we have products between $20 a kilo, $30 a kilo, $40 a kilo, we are looking at $60 a kilo, $70 a kilo up to $300 a kilo.

Pratik Banthia: Okay. Thank you very much and good luck. Thank you.

Shalil Shroff: Thank you.

Vinod Gupta: Thanks.

Moderator: We'll take the last question from Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Yes. Thanks for the follow-up. So, just taking your comment on the China factor and inventories coming into the system. So, you alluded that in FY '20 to whatever volumes you did, we were able to keep those volumes in FY '23. And given that now China has come into the system and probably will have a generic market globally, what is the factor which can go wrong in terms of achieving targeted growth of, say, 20%-25% and which might have some derailment or postponement of our growth? Thank you.

Vinod Gupta: Okay. So, I think China is both, though we are trying to develop local suppliers, China is both a supplier of raw material and a competitor in the market. So, with supply situation easing out, in fact, we are in a better position to capture the market because our processes are competitive. Of course, our energy costs have been higher, that we will be correcting during the year. So, we probably will be either at the same level of market share or maybe we will increase.

Now, that's a continuous dialogue that we have with our customers in terms of how to make sure that we stay competitive and maintain the market share. So, I don't see that as a negative. In fact, even in normal market conditions, maybe our performance will be better.

Shalil Shroff: And just to add, even where we had product registration in Latin America, where we started with 20%, we are now almost up to 55% to 60%. And we believe next year we should be between 70%-80%. Main competitors are Chinese.

Rohit Nagraj: Got it. Thanks a lot for answering all the questions and best of luck, sir.

Ashish Nayak: Thank you so much.

Vinod Gupta: Thanks to all of you for being here. Thank you very much.

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

Management: Thank you.