"Punjab Chemicals and Crop Protection Limited's Q2 FY'22 Earnings Conference Call"

November 1, 2021

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MODERATOR: **MR. AMIT ZADE – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'22 Post Results Conference Call of Punjab Chemicals and Crop Protection Limited hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Zade from Antique Stock Broking. Thank you. And over to you, sir.

Amit Zade: Thanks, Rutuja, and good afternoon, everyone. Thanks for joining us on the call. We thank the management of Punjab Chemicals and Crop Protection for giving us the opportunity to host the post results quarterly conference call.

Today, we have with us the senior management team of the company, represented by Mr. Shalil Shroff – the Managing Director; Mr. Vinod Gupta – CEO; and Dr. S. Sriram – the Chief Financial Officer.

Without further delay, I now hand over the call to Mr. Vinod Gupta for his Opening Remarks on the Business and Financial Performance for the Quarter gone by. Post that, we can open the floor for Q&A. Thank you and over to you, sir.

Vinod Gupta: Good afternoon, everybody. I am Vinod Gupta, CEO for the company. We welcome you to this conference call to discuss our last quarter performance. And also I hope that all of you are staying safe and looking forward to the festive season which we sort of missed last year.

During last quarter, there were several challenges this business faced. I think everybody is aware of the challenge, uncertainty being created by China and also the logistical challenges. Now, despite all these challenges, the resiliency of our business and the robustness of our business is clearly visible in our results. We have taken several strategic initiatives over last few quarters and that is actually showing in our performance.

Obviously, from China side, main challenge was availability of raw materials because the supply chain is globally integrated. And we took proactive decisions on a regular basis to ensure that our business do not get interrupted because of any supply interruption coming from China.

Similarly, on the product delivery side, we did have a challenge of containers availability or space availability on shift, I mean, most of the cases we were able to meet our commitment barring a few commitments which will anyway we have taken care in the subsequent quarter.

Also, because of delayed monsoon, there was a power crisis in Punjab which did affect power availability to our factories for around 10-12-days. However, with our proper planning and the back-ups that we were able to arrange in time, we made sure that the business is not impacted because of these uncertainties which got created.

So, in view of all these challenges, obviously there is an upside which I would like to present is that we were in the process of developing two products in the last quarter, both the products have got commercialized and we have started regular supplies of these products to our customers.

I will just give a summary of performance for this quarter: If I look at on year-to-year basis, from last year our turnover was Rs.164 crores, this year we ended at Rs.209 crores, that's a growth of about 27%. Our gross margins are stable at around 40.5%. EBITDA has grown from Rs.23 crores to Rs.31 crores and margins are up from 13.8% to 14.8%. Similarly, growth in profit after tax (PAT) is from Rs.12 crores to Rs.18 crores and margins have improved from 7.2% to 8.6%.

If you look at the half yearly performance, on year-to-year basis, our revenue has increased by 42%, our gross margins are stable at about 41%, EBITDA has boosted from about Rs.45 crores to Rs.69 crores and margins have gone up from 15.1% to 16.4% and PAT has almost doubled from Rs.23 crores to Rs.42 crores which is an increase in PAT margin from 7.8% to 10.1%,

In Punjab Chemicals, we are taking all possible strategic initiatives including long-term partnership with our customers, building our leadership team to ensure that the company continues to grow and gets benefited from diversification which is being undertaken by global world to create an alternate source of critically API and intermediate supplies. That's all from my side. Thank you very much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, one question on these two products where the commercial supplies have started. So, there were these three products for FY'22. So, what is the status on the third product? And these three products put together what is the revenue expectation for FY'22 and FY'23 sir?

Vinod Gupta: Out of the two, I think the third product is also on track. We will probably be able to start commercial supplies in the last quarter that will be in the quarter of January to March. On revenue potential for '22, the two products that we have commercialized should give us Rs.15 crores each and third product I think it will all depend on the timeline, so we will not put any number around it for this financial year.

Pritesh Chheda: Next year these three products together?

Vinod Gupta: Next year these three products together I think should give us roughly about Rs.70-80 crores.

Pritesh Chheda: There were another couple of products progress to come in '23. So, what is the progress there sir?

Shalil S. Shroff: See, as we have always discussed with you, we are in a sector where our product also has to be registered. So, today if Punjab becomes a supplier to any of these companies, they have to register. So, registration process as I have always explained on many calls depending on geographical markets, it takes between three months to three years, maybe sometimes also goes a little bit more. So, as far as Punjab and our customers are concerned, we are absolutely in line and we believe that the registration process is ongoing and very soon we will be having this registration to cover partly of the other geographical areas where we would be exporting this product to our customers who then will distribute it to the ongoing supply chain.

Pritesh Chheda: Sir, the other question is on the capacity of the gross block side. Your presentation talks about some 80% capacity utilization at both your sites and then there is this expansion of about I think in last call you mentioned about Rs.150 crores which you are undertaking via some money coming from the customer. So, the question here is the existing capacity that you have on ground, what kind of revenues it can support and this Rs.150 crores of investment which is proposed, at what asset turn this investment will come?

Shalil S. Shroff: You have asked two things. One is let's look at what products we are in. So, at the moment, the product range we are in, there is a growth potential and it may grow. The planning is that it will grow between 15% and 20% on a year-to-year basis other than there is any adverse in the market conditions. As far as the investment goes, the investment on Rs.150 crores is partly existing CAPEX and the new CAPEX which we presume in the next two years should at least be 3-4x of the revenue.

Pritesh Chheda: And the existing asset block on ground of Rs.200, 250 crores at 80% capacity utilization, can generate what kind of revenue sir?

Shalil S. Shroff: So, as I said, on different products, we have between 15% and 20% on a year-to-year basis. So, if I broadly look at it, it could be between 100 crores and 300 crores in the next three years.

Pritesh Chheda: Sir, one clarification. I was not able to understand. We had a gross block of Rs.400 crores in FY'16 which stand at about Rs.250 crores last year. So, is there something that we have sold out from the gross block or there is some revaluation of the gross block if you could just help us understand this?

Dr. S Swaminathan: There is no revaluation of the asset. Some non-productive assets which we have sold, which are not part of the plant and machinery… there was one Tarapur plant which we sold and a couple of offices in Bombay which we sold.

Pritesh Chheda: So, now what remains on the balance sheet at Rs.250 crores is all the existing product gross block comprising the offices and the Lalru and the other plant, that's how we should read it, right?

Dr. S Swaminathan: Not only Lalru in Punjab, we had some asset in Pune also, but that's very small.

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

Dhaval Shah: Sir, our long-term guidance of Rs.1,500 crores sales by '24, so assuming the asset turn at 2.5, we would be requiring around Rs.600 crores of gross block, we are currently at Rs.250 crores and then we had guided further. So, is the gross block turnover going to be the same to achieve this Rs.1,500 crores? And thus, what will be our CAPEX plan over next two years to achieve this top line?

Shalil S. Shroff: As we already said that the CAPEX which we are looking at around Rs.150 crores, comprises of the existing product, the updation and also new product. Please also understand that every product which we do vary from whether it's a $10 or a $30 or a $50 product. So, going forward, we believe that the two assets and also looking at our industrial division, because that also has a tremendous potential as we make the phosphoric acid which is not the normal grade, it's the higher grade which goes into companies like Coca Cola, Pepsi into pharmaceutical companies who buys like Laurus and Divis, etc., So, comprising of all these we believe at the moment what we have planned to achieve Rs.1,500 crores is very well documented, everything which we plan is absolutely on track as we see moving forward, as you see last year we were at around Rs.680-700 crores, this year we expect a good jump and thereafter what we believe we can achieve to our target which we have portrayed to all of you guys.

Dhaval Shah: That would mean the Rs.150 crores expansion announced will be enough for this top line or you will be announcing further because then our asset turns will further be higher. Anyways, we are higher compared to the industry; we are at 2.5 to 2.9 and that's a little higher than industry norm. So, how should we read it in terms of our CAPEX requirement?

Shalil S. Shroff: As we have said, at the moment the CAPEX which we have planned should take us where we are in terms of achieving our Rs.1,500 crores revenue.

Dhaval Shah: So, this Rs.150 crores is your contribution or this is the total CAPEX because I think in 1Q call we discussed that even the client will be contributing money towards capital investment plus also towards working capital?

Shalil S. Shroff: This Rs.150 crores would be on CAPEX which will be jointly with the customer. As far as working capital and other I think in last call Sriram had explained that we have now got good alliance with many companies because ours is major export, so we use some facilities beyond the Indian banking.

Dhaval Shah: What will be the client's investment? In that the asset turns would be what, same 2.5-2.9x?

Shalil S. Shroff: Should be that. See, again, on a product basis, on a customer basis, it varies, what type of investments and what we bring in. so at the moment we are at Rs.150 crores where we have said would be jointly within the cash flows of Punjab and within the contribution from the customer.

Dhaval Shah: The investment which the client will make, I assume that won't be reflected in the assets or will it be reflected?

Dr. S Swaminathan: It's only a cash flow arrangement, so that will come as part of our CAPEX in the balance sheet.

Vinod Gupta: One point I think we should not forget is that in some of the cases where we will be expanding our existing molecules, the incremental revenue and incremental CAPEX requirement in a Brownfield project is far less than a Greenfield project. That's where we see a significant upside where we are looking at debottlenecking and expanding our capacities or fine-tuning of molecules would be moving to high value molecules. And that's where you will see a better asset turnover also from existing assets.

Dhaval Shah: Just one question on the related party transaction. From Hem-Sil Trading and Manufacturing Private Limited, our company borrows from this entity. So, what is the nature of this company and why the borrowing is from this entity?

Shalil S. Shroff: Hem-Sil is a promoter company of Punjab Chemicals which is owned by Shalil Shroff, that's me and my family. I think in the SEBI and everywhere, Hem-Sil has been categorized as a promoter company along with Shalil Shroff.

Dr. S Swaminathan: In the earlier call, we had said that promoters had contributed when we had this OTS and when we had issues with our cash flow. So, they had come and supported the company and quite good. That's the reason we are up and running as of now.

Moderator: The next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: Sir, in the previous annual report, we used to mention break up of sales between Derabassi and Lalru plants. If you could give us those numbers for first half and final split?

Shalil S. Shroff: Yes, we can do that. Derabassi obviously is our active ingredient, that's where we make the agrochemicals. So, if we look at between Derabassi, Lalru and Pune, Derabassi at around 60%, 30% to 35% would be Lalru and the balance 10% to 15% would be the industrial division.

Akshay Satija: Sir, also on the Lalru plant, we actually guided a couple of the molecules that are coming in this year would be September. So, that's where we saw the additional capacity of 3,000 tons, but in the volume front, we couldn't see any uptick in first half. So, is it that this has been supplied from Derabassi itself? If you could give us some idea of what the 3,000 additional tons capacity is?

Vinod Gupta: I think you should not look at plant wise because most of the plants are kind of interchangeable, we can sometimes produce here and there. So, that's one big thing. And you look at it in totality.

Shalil S. Shroff: Just to add that, as Vinod did mention, the products at Lalru, the commercial production have started, there was a little bit delay in the first and second quarter, as you all know that the supply chain basically logistics and now we have seen in the last between 10 to two weeks things have become a little better and we hope and we pray that the logistics remain the same because otherwise there is always a delay in shipment, but moving forward, yes, Lalru will have a better capacity, will be better in terms of revenue I would say Derabassi and Lalru over the next two years you would see that they would look maybe at a 50:50 level.

Akshay Satija: Sir, if we look at the agrochemicals, there has been a significant increase in last five years of exports from India to Brazil and United States. If you could throw some light on what those exports are and are we contributing any further to it and how are we looking at that export opportunity?

Shalil S. Shroff: As I told you, we are in agrochemicals, so every customer, every company who buys from us, need our registration and especially Latin America, Brazil and US take some time in registration. And if we see from the last two, three years, our exports to this continent has increased, and you will see in the next two years increasing a little bit more because as registrations come in, the supply chain will happen more robust.

Moderator: The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Sir, two questions. First one is a curiosity. Why do we not mention anything about the Pune industrial plant in the investor presentation?

Shalil S. Shroff: Maybe it's a good point that you have brought it up, we will again relook at it and we will ensure that we give a line because as I said, the phosphoric acid which we make is of a higher grade and in terms of business, it's competitively less if we look at the agro and the intermediate side.

Rohit Ohri: Can you share what is the area and is it owned property by us and what is the total capacity and capacity utilization of this unit?

Shalil S. Shroff: Pune unit is a lease property. It doesn't belong to the company. The capacity which we utilize right now is close to around 75-80%. This business dynamic is very different. And as I was telling you that the phos acid we supply to Coca Cola and Pepsi. And in the next two years we see a lot of interest for them to buy this product for their Korean plant, for their Singapore plant which we are already exporting now and we are already in discussion with them to enhance this capacity and which at the moment, at the existing plant we will be able to do a little bit but we are already looking at adjoining plot where we can expand on this capacity or look at a site a little bit away from where we are, but within that radius of parameters.

Rohit Ohri: What is the current acre that we have over there in this Pune property?

Shalil S. Shroff: This unit is pretty small; it's only around 1.5-acre.

Rohit Ohri: My second question is you alluded to in some of the concalls earlier that there were certain clients from Australia, New Zealand and Singapore who were lost in the past, they have come back. So, have we been able to get any order book from them or have to come back to us?

Shalil S. Shroff: It is a product which we already said we exported some in the first quarter and now again in the second and third quarter that will happen. Parallely, we are also discussing with them on newer project and please keep in mind when we talk on new project, please look at that registration period and everything. So, as we see from today, in the next two years, the export from Punjab Chem is pretty strong in Europe, US, Latin, which also will increase now into Southeast Asia, covering Japan and Australia.

Moderator: The next question is from the line of Monika Arora from Share Joint Advisor. Please go ahead.

Monika Arora: What are your plans for our domestic business? How do you see the split between domestic and export business in next few years?

Shalil S. Shroff: If you see, Punjab Chemicals has been pretty strong on the export side. Having said that, we have not forgotten the domestic market and in the next two years you will see there would be more business which also will happen in domestic but by and large if we see the roadmap for the Rs.1,500 crores, we still believe that the 60-65% would still command on the export front where the markets such as US, Latin and Australian markets will be catching in the next two years. But still the domestic is on priority with us which also we are looking, but as on date, if you look in the next two to three years, the visibility of the export would be on the higher side… or partly the same ratio which we are doing, maybe a little bit tweak of 5-10% would grab a little bit of domestic market in the next two years.

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

Deepak Poddar: Sir, in terms of your challenges that you have been talking about the uncertainty on China front, the raw material procurement as well as the logistical challenges, so, just wanted to understand how does that derail your margin expectations over next maybe one to three years?

Vinod Gupta: The China interruption at the moment is more around supply chain and our ability to service the market because for most of the products any changes in the raw material prices are passed through to our customers. So, that way it does not impact our margins. So, we are more worried about securing our supply chain and our ability to service the customer. In order to mitigate this particular risk for last two years, we have been aggressively developing alternate locations from where we can get this raw material. I think in last two years, we have developed at least local supplies for three to four critical raw material. For another two raw materials, there is arrangement which is going on and some pilot samples have been received. So, we are aggressively looking at starting either sourcing locally or from geographies other than China. This is obviously a very important initiative that we have taken and this will continue for say another a year or two. We will be able to have at least two locations from where we get this raw material and hence we are able to ensure the supply security where customers are more worried about quantity and quality and timely delivery of the material.

Deepak Poddar: Does that mean this year margin of 15%, 17% going up to 18%, 20% by '24 remains intact?

Vinod Gupta: Yes, I think we strongly believe in that and we are working in that direction.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia: Can you talk a little bit about which technologies and chemical processes that we are really good at, which part of the chemical value chain, different companies and different expertise, so if you can talk a little bit about our expertise?

Shalil S. Shroff: Chemical is a big very word. For example, at Punjab Chemicals, we handle products like Hydrazine Hydrate, Thionyl Chloride, Sodium Cyanide, Yellow Phosphorus, Chlorine Chemistry, Hydrogenation, Friedel Craft, Reaction, Aluminum Chloride. So, across the board we do specialize not only in one but we do specialize in six, seven… we cannot be specializing in everything, but like for example, there are certain products which we believe we cannot do, we always be upfront with the customer. And usually whenever a customer looks at us, they know us Punjab is pretty well known for quality, well known for its technology, well known for its HSC, health and safety. So, based on that we move forward. To just give you, that's where I just name a few of the chemicals, there are many more which we have like for example bromine, we handle at our plant close to 100 tons a month, Hydrazine Hydrate 300 tons a month, Thionyl Chloride 300 tons a month. So, these products are not only chemicals but they are also hazardous. So, you need to follow proper safety measures to ensure usage as well as storage.

Moderator: The next question is from the line of Naitik Mody from OHM Portfolio. Please go ahead.

Naitik Mody: My question is pertaining to Nippon Kayaku. What's the progress on that product?

Vinod Gupta: That product we have commercialized and now the commercial supplies have started.

Naitik Mody: How is the ramp up happening sir?

Vinod Gupta: We are close to 80% capacity utilization.

Naitik Mody: So, what is the kind of sales we are expecting for this year from that product?

Shalil S. Shroff: I think this year should be in the tune of between 10 and 12 crores… maybe a little bit more because again while we are trying to be a little bit careful in what we answer you because of logistics as I was just telling you sometime back for the last 10 days to two weeks, logistics has been pretty good and we hope that this continues to ensure that the supply goes in. This product full potential as I have already explained you is more than 60-70 crores when we go to full throttle. So, that would come in, in the next between 12 and 18-months.

Naitik Mody: Similarly, what is the status on the products that we are developing in a Singapore company?

Shalil S. Shroff: That also is good. We have had shipments. Then there was a little bit of drought in Australia where it's one of the markets but obviously Europe and UK is also the biggest market and then that is also absolutely as planned moving forward.

Naitik Mody: So, is it expected to be launched in FY'22 or this will again go to '23?

Shalil S. Shroff: Partly this year we have already sold some quantities which would bring in a revenue of anywhere between 12 crores and 15 crores and moving forward for the next year we expect to at least double that.

Naitik Mody: Can this be a Rs.30 crores product?

Shalil S. Shroff: The potential of this product with the capacity which we have is close to around Rs.90 crores and Rs.100 crores. Having said that, the registrations what we have in hand, we believe that next year would be this number.

Moderator: The next question is from the line of Karthik from Suyash Advisors. Please go ahead.

Karthik: Sir, a couple of things. Can you talk a bit about the product pipeline at various stages of development, so let's beyond FY'23 when you talked about say maybe two, three new products being commercialized, what is the pipeline look like? And in terms of new customer additions, have there been any progress, can you talk about that as well?

Shalil S. Shroff: Being any company, there is always a product pipeline because we don't have to look at what we see in the next two years, but we look from what is in the next five years we are going to do in terms of growth, in terms of product. And also please understand with these challenges coming of supply, we also have to look back that not only making the AI but we also look at the raw material supply. So, just sometime back Vinod was trying to explain to you that how we have also now started developing vendors in India and this brings in very good because our prime minister has always emphasized Make in India. So, this is also an important aspect for us. So, moving forward, in terms of product, because of confidentiality where we have with the customer, I am sorry, I cannot give you customer name, but we have three to four products with a good potential in terms of sales and revenue. And as far as the new customers who joined us is always a progress where we do within the existing customers and new one. And again, because of certain products which are not yet commercialized, unfortunately, here again, because of the confidentiality of the nature, we cannot spell out the customer's name and I hope you will appreciate that.

Karthik: Is there any risk of obsolescence in any of current set of products that you have and therefore is that part of the contingency plan that you have for this Rs.1,500 crores revenue?

Vinod Gupta: This is a very interesting question and this is what we did in last quarter with most of our customers as to how do these products look like going forward in next four to five years. Fortunately, none of our products are in that basket where there is a risk of obsolescence. Maybe except one product, in all other products we see a market growth of 7-8% year-on-year. So, that way none of our products will go into that basket of being obsolescent and any need for a replacement.

Karthik: Last question on profitability. You talked about being able to pass through cost. Is there a substantial lag or is there a nominal lag as of now?

Vinod Gupta: So, we are able to do a quarterly reset and it happened this time, even during the quarter we did talk to a customer that the current situation was really exceptional and customers not in most of the cases, but in all the cases, very willingly was ready to cooperate, understanding the current challenges which is not only an India-specific or Punjab Chemicals-specific challenge, but a global challenge.

Moderator: The next question is from the line of Jatin J from Alpha Capital. Please go ahead.

Jatin J: In terms of this quarter, can you explain there is some kind of lower margin compared to the last quarter, would this be because of logistics related issues or there are something else also have to look into?

Vinod Gupta: I think there have been two, three specific instances. Obviously, one is I think we said there was a power crisis in Punjab. We actually rather than getting a power from the grid, we had to operate our DG sets. Because of the delayed rains, we use husk as fuel was not available and we are in fact seeing unprecedentedly high prices even today. Actually, it's supposed to be peak season. So, the fuel cost is definitely on a higher side and logistics cost also where probably there is some lag, raw materials prices was a pass-through but there was a challenge in the raw materials prices. And third aspect which we can consider is logistical aspect where some of the shipments could not take place just because container not available. Otherwise, on the front of our capacity utilization, our ability to manage raw material availability, I think everything else was fully in place.

Jatin J: Any guidance for second half -- do you expect it to be similar like first half?

Shalil S. Shroff: Please understand there are certain borders, certain lines by SEBI and I cannot talk too much but I tell you that the plan is absolutely good, the order book position looks very-very positive. In fact, at my level also I have discussed with the customers and they believe they want not one but they want five. So, moving forward, things are good and because as we said our growth plan you know that from where to where we want to go to Rs.1,500 crores, so this year the two quarters should be much more better than what we did in the last two years.

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

Dhaval Shah: I have a question on our product basket. Now, I was looking at the top five products for us, so for example, Metconazole we did around Rs.195 crores sales in FY'20 and that came down to around Rs.50 crores odd in FY'21 and while for Metamitron it was almost nil in FY'20 and came to Rs.160 crores in FY'21. Now there is such big movement in our volumes. What is the reason for that? And my second question is on Diflufenican which is Pyridine-based herbicide. Now, Bayer is going to launch a new product as a combination with this Diflufenican. So, are we going to participate in that opportunity as well?

Shalil S. Shroff: You mentioned about the two, three products in terms of the capacity. I think if I go back to the last quarter because at the suppliers level there were some stocks and that's where it was delayed for the next year, but otherwise the product in terms of supply has no problem, in terms of crop acreage, not an issue. The second one which you asked on DFS. With the mixture, with the existing customers with whom we are doing the business, they also have the same registration and is moving forward. And this product has a good potential for us because a) we are the only one other than Bayer and China and we are pretty backwardly integrated, even the raw material source, we don't only rely on China but we also indigenize it and that's giving us a upper hand and we believe moving forward we will go parallel in terms of the product as far as the mixture also.

Dhaval Shah: Sir, now when we have such high revenue share, so for example, Rs.160 crores on Metamitron in FY'21 and given the global size would be around say Rs.900-1,000 crores molecule, so what is our strategy, are we looking at further increasing our market share of this particular molecule or are we very high because we have a double digit market share already? Top five molecules for us is all into herbicide and fungicide. So, two, three years down the line, will this agrochem focus be there or how will it shape?

Shalil S. Shroff: As far as the existing product goes, yes, the market size is big but please understand a customer would not like to buy 100% or 80%, but at the moment the customers which we look at buy between 60-70% from us and they always like to have alternate. And we have already been discussing with a few of them and they have said that yes, we can look at it and that's where I said the increase of some products could happen maybe between 15-20%. As far as your second one, moving forward, our aim because we are into agro, the customers also we work in is agro, but as in the last couple of calls I also mentioned that Punjab Chemicals is also strongly looking at intermediates because we are into agro and intermediates we have good relationship with companies like Laurus like Divis, Mylan, you talk of Abbott, you talk of Daiichi Sankyo, overseas. So, with them we are also looking at. So, moving forward, obviously, still 60-70% of our revenue would be from agro, but we believe moving forward intermediates is something where because again it's becoming China, because you know that pharma companies rely a lot of their raw materials, a lot of their intermediates they buy from China and we have seen within the last six months more aggressive where we were discussing with them and they were saying, okay, we will talk, but now we have seen more and more people coming on the table and saying okay, let's sit together, can you do this, can you do that. So, moving forward, our focus on intermediates side will also be increased.

Dhaval Shah: Sir, in our total basket, how much is our domestic revenue?

Shalil S. Shroff: As I said, we are almost 65% export, so we have close to around 35% and I think one of the ladies or gentlemen asked, I said we are also entering on the domestic in terms of supply, so moving forward, we would go to maybe between 55:45.

Dhaval Shah: Within the 35% revenue, what is our agrochem and pharmaceuticals share?

Shalil S. Shroff: If I say 35%, maybe around 40% is agro, 60% is of the intermediates or the specialty chemicals but moving forward, this will be come close to 50:50.

Dhaval Shah: Because I was looking at products. We make Oxalic Acid, Diethyl Oxalate which are all building blocks in basic chemicals. So, how much of the sales would be this basket like you make technicals also which would qualify in specialty chemicals, that is building block chemical and the solvents?

Shalil S. Shroff: If you correlate to an Oxalic Acid or Diethyl Oxalate, that will contribute maybe 10, 15, 20 crores on the top on a yearly basis. But when we look at specialty chemicals intermediates, this would be rather high like from our industrial production or from our intermediates would be to the tune of between 60-70 crores, which is that angle which we want to take forward to grow that part of the business because there is a lot of visibility now where customers are relying other than India and they also want to now look at companies like ours. Again, I always believe that Punjab Chemicals has been an agro and companies who make API, would like to work with Punjab Chemicals because we are not in the API sector nor we would like to do that other than it's a contract manufacturing. So, we will be more than happy to supply them technical and become their good supply chain in terms of giving them the best.

Dhaval Shah: Sir, in our Rs.1,500 crores journey, intermediates would be a part of it, as you mentioned you are entering into the likes of Laurus and a couple of other names you took?

Shalil S. Shroff: Absolutely.

Moderator: The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: The way Adama or UPL and others are growing, they are quite aggressive. So, do you think this target of Rs.1,500 crores would be a conservative one for you right now and should you be revising it sooner?

Vinod Gupta: What you say is right. All our customers are very aggressive and we are in continuous dialogue with them to look at any business opportunity that can come in partnership with them.

Shalil S. Shroff: We have to be very careful specially when these calls are recorded and all, but just to give you an upfront today for the Rs.1,500 crores we exactly know where we are. There are a lot of opportunities which we are discussing with which as and when come, we will be more than happy and in fact we as management and you all as investors, shareholders, whatever also will be happy to see better numbers.

Moderator: The next question is from the line of Surabhi Saraogi from SMIFS Capital Markets. Please go ahead.

Surabhi Saraogi: Sir, my question is on a quarter-on-quarter basis, your EBITDA margin has fallen from 17.5% to 14.8%. And also in your last conference call, you had given the guidance that your EBITDA margin for the full financial year '22 would be around 17%. So, can you give some reason for the downward EBITDA margin in this quarter?

Shalil S. Shroff: The second quarter was a challenge in terms of power. I think we have already explained all in detail. Because of power and a little bit on the fuel prices, on the husk which we use because of the delayed monsoon or in certain ways the monsoon has been on high, but moving forward, we believe on yearly we should come closer to which we are moving forward to.

Surabhi Saraogi: Do you import raw materials from China or from somewhere else also? What is the impact of the increase in cost side of raw materials?

Shalil S. Shroff: Our all contracts are on a yearly basis but the raw materials on a quarter recheck. So, as and when the raw materials goes up, we check with the customer. As far as procurement of raw materials, we not only buy from China, we buy in India, we buy from US, we buy from Europe, so we buy from all over. It's not only Punjab Chemicals, but everybody in the chemical industry has been hit and we are working very aggressively to see that our dependence on many of our flagship or the products which we are coming in the next couple of months or in the future, we ensure that the raw material is secured. And in fact, even the customers with whom we discuss, they know Punjab Chemicals is a good manufacturer, they have the capability, but we need to look at supply chain other than the main AI, the downstream raw materials.

Surabhi Saraogi: If there is an increase in shipping cost, what is the effect of that, if you can quantify that?

Shalil S. Shroff: Even as in the contracts, it's well defined that shipping cost is also actual whatever comes in is taken care by the customers.

Surabhi Saraogi: Sir, when do you expect the situation to normalize with the raw materials and logistics challenges?

Shalil S. Shroff: As I did mention that in the last 10 to two weeks, we see a visibility in movement of containers, but this is something which everybody is hoping but I believe in the first or the second quarter of next year things should become much more simpler and easier.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vinod Gupta: Thanks for participating in today's call and I think there were a lot of the interesting questions. And from the side of management, we can only say that we are putting best of our efforts both on operational basis as well as on strategic initiative to ensure that our growth projections remain in line.

Shalil S. Shroff: And we wish everybody a happy diwali and stay safe for India to fight the coronavirus. All the best and thank you so much for your time.

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