"Punjab Chemicals and Crop Protection Limited 2Q FY24 Earnings Conference Call"

October 27, 2023

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Moderator: Ladies and gentlemen, good day and welcome to Punjab Chemicals and Crop Protection 2Q FY24 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 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. Jenish Karia from Antique Stock Broking. Thank you and over to you, sir.

Jenish Karia: Yes. Thank you, Rio, and good afternoon to all the participants on the call. On behalf of Antique Stock Broking, I welcome you all to Punjab Chemicals and Crop Protection Limited 2Q FY24 Earnings Call.

From the management side, we have with us Mr. Shalil Shroff – Managing Director, Mr. Vinod Gupta – the CEO and Mr. Ashish Nayak – CFO.

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

Vinod Gupta: Good afternoon, everyone, and thank you for joining the call today. With me from Punjab Chemical side is our Managing Director – Mr. Shalil Shroff and our CFO – Mr. Ashish Nayak.

So, let me start my talk with acknowledging that the challenging environment that we are facing in the industry and last few quarters have been very challenging and we are facing really turbulent market conditions. However, I want to assure you that the Punjab Chemical team has been working hard to adapt to these challenges and navigate these challenges.

So, let me first start this by addressing the elephant in the room that is our revenue, which is lower sales in this quarter. Now this is mainly due to factors like low volume of some products due to high channel inventory. Also, a significant contribution for drop in this revenue is because of steep drop in product prices after re-entry of China in the market. So, overall pricing pressure and some volume challenges have resulted in lower quarterly sales. However, I'm proud to share some of the positive news despite these hurdles. We have demonstrated resilience in these tough market conditions by maintaining and even improving our margins despite all the challenges that is coming from the competition. Some of our new product initiatives have also started contributing to our business.

Let me outline some of the factors that have contributed to our performance, which is actually categorized in 5 pockets. First and foremost is product mix. Realizing that the market conditions are uncertain and quite turbulent, we started focusing on the product portfolio, which are more profitable and we started strategically emphasizing on those products and promoting these products with our customers. With this, we have been able to boost our profitability. This selective approach has allowed us to maximize the returns on our investment and also increase our market reach. Second aspect is cost management. We have worked aggressively to manage our cost effectively, be it logistics, be it fuel cost, be it people cost. Across the board, we have looked at cost very meticulously and try to control and this is also yielding good results. Third front is productivity and efficiency. During these tough times, as I've been telling in the earlier calls that we have been investing in R&D and product development. Our teams have worked tirelessly to improve our operations, our efficiencies and streamline the processes. This is actually allowed us to produce more efficiently and also reduce waste. Fourth is innovation and R&D. Despite all the challenges in the market, market conditions being tough, we are adding resources to our entity. We have added some more people in the last quarter and we have added some more facilities in the last quarter. This is helping us to basically add new products, also to improve efficiency of existing products and gain faster traction in the market. And the last and foremost is our customer centric approach. In these tough times, most important part, we realized that we have to be in touch with our customers on a regular basis so that we keep on tracking the change in market scenario continuously, also evaluate the competitiveness in the market and provide the product as per the requirement of the customers. This customer centric approach has enhanced our brand loyalty. Our customers are appreciating this approach and any opportunity they are seeing in the market, they are coming to us. Also because we are able to service their requirement quickly, we get some advantage on pricing power also.

So, while we have faced a challenge and headwinds in terms of sales figure, I want to emphasize that our business is in strong position and we are well prepared to weather this storm. We have not only maintained our profitability, but have also laid the foundation for future growth. Our investment in innovation and efficiency has put us in prime position to capitalize on opportunities as the market conditions stabilize, which is expected to happen in the near future. However, in near term, the turbulence has not gone away from the market. Demand continues to be sluggish. Price pressure is as intense as ever. We are putting all our efforts to compete in this market and also finding opportunities to utilize assets to sustain this momentum and journey.

In closing, I would like to express my gratitude to Punjab Chemical teams and to all our customers for their hard work and commitment during these challenging times. At Punjab Chemicals, we remain focused on our long-term vision for growth, for sustainability and we are confident in our ability to adapt to these challenging times, overcome these challenging times and ultimately thrive in dynamic marketplace. Thank you for your continued trust and support. Now, I will hand over the call to our CFO, Mr. Ashish Nayak, for detailed analysis of our financials**.** Over to you, Ashish.

Ashish Nayak: Thanks, Vinodji. Hello, everyone and thank you for joining us for our Q2 FY24 and H1 FY24 earnings call. I'll provide a brief overview of our financial performance for the quarter and for the first half.

Let me first start by acknowledging the current market environment. We have been navigating global economic downturn and various market disruptions. However, in the face of these challenges, I am proud to report that our company has demonstrated remarkable resilience and adaptability. On the P&L front, the revenue from operations for Q2 FY24 was Rs. 242 crores and for H1 FY24 was Rs. 524 crores, led by growth in domestic market. Domestic market sale contributed 48% in Q2 FY24 and H1 FY24 as compared to 38% and 43% respectively in the same period last year. The gross margin in Q2 FY24 was higher at 40.6% as compared to 35.5% same period last year. And for H1 FY24, it was 37.7% as compared to 36.3% same period last year. The increase in gross margins is attributable to the product mix and process efficiencies.

As stated in Q1 FY24 results, we have put in a lot of focus on cost optimization measures. This along with the change in product mix and improved process efficiencies has enabled us to better the EBITDA margin which stood at 14.6% in Q2 FY24 as compared to 11.2% in same period last year and 14% in H1 FY24 as compared to 12.1% in the same period last year. We have been able to achieve major savings on power and fuel primarily driven by the infrastructure upgrades that we have been investing in. The increase in our margins is a testament to our ability to adapt, innovate and optimize our operations. There has been an increase in finance cost to Rs. 6.6 crores in Q2 FY24 as compared to Rs. 3.9 crores in the same period last year. This was mainly on account of a one-time interest cost of Rs. 1.98 crores in Q2 FY24. This was as per the Honourable Supreme Court judgement which was made applicable to the entire industry for pre-imports against advanced authorization during the period October 2017 to Jan 2019, I reiterate, this is the one time interest cost. Despite of the volatility, our PAT was 7.5% in Q2 FY24 as compared to the 6.3% in the same period last year and in H1 FY24, it was 7.6% as compared to 6.9% same period last year.

On the balance sheet front, as on 30th of September 2023, the company's total equity stood at Rs. 317 crores as compared to Rs. 281 crores as on 31st March 2023. During the quarter under review, the company got a sanction for working capital from Yes Bank. This is in addition to the current limits enjoyed with SVC Bank. We have been working closely with our banking partners to optimize the finance cost. There was a marginal increase in bank borrowings to meet the working capital needs as on 30th of September 2023. In H1 FY24, the company has added fixed assets worth Rs. 27 crores. This is primarily towards infrastructure upgrades. The company has focused on data-driven decision making. As a step towards same, we are in the process of implementing SAP - S/4HANA an ERP software. The net working capital has increased from 63 days as on 31st of March 2023 to 72 days as on 30th of September 2023, while the inventory days has reduced from 61 days to 51 days in the same period. The receivables has increased marginally from 52 days to 72 days in the same period.

Looking ahead, we are committed to a multi facility strategy for growth. We will continue to invest in our R&D, do further backward integration, improvement in efficiency, roll out new molecules, expand in new markets and pursue strategic partnerships that align with our core strengths. We are confident that these initiatives combined with our unwavering commitment to efficiency and customer value will position us to not only weather the current storm, but emerge even stronger in the long term. I want to thank all of you for your ongoing support and we remain committed to the delivering value and returns to our shareholders and all our stakeholders. We are confident in our ability to navigate these turbulent times and create a prosperous future for our company. Thank you for your time and attention. We are now open to any questions and comments you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jatin Damania from Swan Investment Managers. Please go ahead.

Jatin Damania: Thank you, sir, and congrats on the strong operating performance in the margin of 14.6%. So, just wanted to understand couple of things. You said that our gross margin has improved due to a better product mix and process efficiency. So, is it possible to quantify the benefit that we have got because of the improvement in the yield during the quarter and how much sustainable this yield will be going ahead?

Ashish Nayak: As far as raw material efficiencies are concerned, I would say somewhere in the range of, as a part of my raw material consumption, I would say somewhere around 10% to 12% is the efficiency improvement that we are seeing. But then it's different across different products, some products it's higher, some products still are work in progress. We are reaching there. As far as the product mix is concerned, I mean, it's impossible to quantify if I compare it quarter-to-quarter as to what's going to be the impact on the margin, so yes, but it has had a positive impact in this quarter.

Jatin Damania: Thanks for that. But in terms of the product mix, we were supposed to launch 6 to 7 products in this financial year. So, have we launched any new products or new molecules in this current quarter, or will the benefit of that new product will approve from the **last quarter** of this financial year?

Vinod Gupta: So, we are on track for some of the product that we sort of forecasted that we'll be rolling out. Some products we have started getting into commercial agreement and we have started some commercial supplies in Q2, this momentum will pick up in second half. In some products, because of the current market condition, there is a wait and watch because our customer is sort of looking for stability in the market condition. However, our discussions so far are very positive because customers are indicating that they are liking our product, they are liking our cost position, and our ability to deliver. So, we are on track as far as this product pipeline is concerned.

Jatin Damania: So, of the product pipeline which was there because we're totally coming out with the 15 products, with 6 to 7 we were supposed to launch in FY24. So, how many we have already started commercial supply and how many will be doing in the second half?

Vinod Gupta: So, when we said 15 products, I think we didn't say that it is in FY24, that's a product pipeline. Now I think I will probably not specify this, but I think the momentum is good and some products have got commercialized. We don't want to specify right now, but some products have got commercialized and we have started commercial supplies.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: So, first of all, sir, with regards to gross margins, you did explain about the product mix and the process efficiencies. So, typically going ahead, what could be the sustainable gross margins for us?

Ashish Nayak: See, I mean, that's something if you look at the gross margin trend, it has gone up from almost 35%-36% to almost 40%-41%. These are turbulent times. We take calls on month to month, quarter-to-quarter basis about the product mix depending upon the market scenario. Every product for every market has a different margin profile. So, this is a very dynamic scenario and obviously we are striving towards maintaining this and let's see how things pan out.

Rahul Jain: And sir with regards to the environment, we do understand the environment has been really bad. So, where do we expect in terms of going ahead, what is your take on the situation and in what timeframe do you expect things to improve from the two fronts, one is the demand, and another is price. On the price front, has the stabilization of prices being done? We understand from our industrial checks that the downfall has been arrested and for last one or two months, overall the product prices have been stable. Of course they have not moved up. So, two parts to it. One is the demand and one is the price part, if you could share some thoughts on the same?

Vinod Gupta: Let's first talk about demand. Demand is again very specific to the product and the region. Now for some of our products, demand is as normal as last year. So, there is a pricing pressure, but demand has been normal and we have continued to deliver the volumes which were similar to earlier years. For some products because of seasonality and inventory, the demand has not picked up. You are right in your observation that prices have stabilized though at a lower level. Now those lower levels are not sustainable levels, but at least the downfall has been arrested. Our sense is that these trends across various products and geographies should become clear by early Q4 and next year going forward, I think demand should become normal. Prices recovery is everybody's guess because I think this is a competitive market and we are all fighting to stay put in the market and that's where our initiative to reduce cost, backward integration, efficiency improvement will help us to make sure that we continue to maintain our market share or even in some cases grow our market share.

Rahul Jain: Sure. And sir with regards to product, I understand the sensitivity in terms of naming the product, but at least if you could share some details in terms of the number of products which we have launched or which have become commercial and what kind of peak sales could be possible from this products which have been commercialized, the new products?

Vinod Gupta: I think couple of products have got commercialized at the moment already, some more will get commercialized in the next half year. At the moment, I think when you talk about the impact on the topline and all, broadly we are looking at our company growing at 18% to 20%. That's the guidelines that we have been giving for most of these products. So, that's what will happen. Obviously one or two products as they commercialize and acceptability becomes bigger because, you know that in agrochemical market, it's also about registration, testing of the product in the market and so it takes maybe sometimes year or two for us to achieve full potential. But broadly we are very positive to meet our target growth profile in the coming years.

Rahul Jain: So, you are talking about overall 18% to 20% topline growth, is that understanding right?

Vinod Gupta: Yes, right.

Rahul Jain: And that would be at the current prices in the market?

Vinod Gupta: At current prices in the market, I think this year anyway, everybody knows the challenge. So, this year our effort is to make sure that we beat last year's performance that itself is definite, I think we are all working towards it, but on long term sustainable basis, we are looking at that kind of a growth.

Rahul Jain: Sure, Sir in your presentation on the R&D capabilities slide, you have mentioned about the 40% of new inquiries from the non-agro chem space. If you could share some more on this particular aspect, just needed to understand what we are trying to refer to and what is the kind of potential? If you could share some more details on this side sir?

Vinod Gupta: See, one is our dependence on crop protection is slightly higher and in order to take care of the market uncertainties, we have started looking at other segments which are specialty chemicals which is catering to multiple sectors. Now these are not related to agrochemicals. When I say multiple, it can be electronic segment, it can be something which goes in, some specialty chemical applications, coding applications etc. So, nothing specific, but we are looking at multiple sectors where we can start developing the product and supplying to them.

Rahul Jain: Sure. And just last one, sir, in the previous call you had mentioned about this registration of a product which was required in Australia. So, you had alluded in the previous call that the registration in Australia had got delayed and you are also applied for the registration of the same in Europe too and you were expecting the same to happen by September or mid-October. Any feedback or any rewards on that?

Vinod Gupta: So, I think both the registration I mean we have not got it, but we are on track, maybe a couple of weeks we will be basically getting the registration for Europe. For Australia market, we have already started talking to some customers and obviously this year, the demand is not good and it's an oversupply situation. But we have started discussion to resume the supplies of the product to that market also.

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

Pritesh Chheda: Sir, in your comments, few products have grown, few products are flat, few products have declined. If you could just give the volume decline percentage for Quarter 2 and H1 and could you just share the product sold?

Vinod Gupta: I think we generally don't want to give product specific details.

Pritesh Chheda: No, I don't want. I don't want product specific. I just want to blend it. So, if we have a X% revenue decline, what is the volume decline? Is 2%, 3%, 5%, what is it?

Vinod Gupta: It's a mix again because see the point is there is a price impact and there is a volume impact on the revenue.

Pritesh Chheda: Yes. So, that's the reason why I'm asking you about the volume impact. Is it a single digit decline, it's a double digit volume decline. Some reference would be helpful.

Ashish Nayak: You can have a look at slide #15 of the presentation where we are talking of the capacity utilization for both the sides, Derabassi and Lalru starting from FY19. If you look at the trajectory for H1 FY24, we are exactly almost half of what we did in FY23, the full year. So, I would say in terms of volumes, I would say we are almost there. I mean obviously, but this is in terms of, I mean every product has a different product cycle and all those aspects have to be factored. But in terms of absolute volume, because is a multi-product facility, that's a general direction that you can get from that particular slide here.

Pritesh Chheda: So, which means the volume decline is not substantial, is that the reference we should take?

Ashish Nayak: Again, I'm saying this is a multi-product facility. So, every product has a different price point and every product behaves differently and as different markets. So, I mean it would not be fair to compare it apple to apple. But yes, in terms of absolute volumes, if you look upon it, if I add up all the tonnage, that is where we are.

Pritesh Chheda: And in the four registrations which were lined up, there is a continued delay. What is the registration now that you have got out of that four or all the four?

Shalil Shroff: So, Vinod, I'll take that question. As far as our registration issue, please understand we are a robust company and our growth towards registration is always ongoing. To answer specifically out of the four, two, we have already got the registrations and two are under process.

Pritesh Chheda: And for those two, the supplies have started?

Shalil Shroff: It should flow in Q3-Q4 and the full potential would be in the next between 12 to 18 months. Because also you have to understand, Europe is not one country. Europe has many different countries . Every country has its own parameters towards registration and same goes in

Southeast Asia or like for example in Latin America, you look at Brazil, you look at Argentina and so on and so forth, yes.

Pritesh Chheda: And the balance two where registration is left for one, you said you will get it in a couple of weeks, right, you are responding to one of the answers.

Shalil Shroff: Please understand this registration issues, we have to work with these authorities, so they usually give some sort of a timeline and we also built up some sort of a timeline because we need to plan our CAPEX, we plan the raw materials, plan the product and everything. So, we are pretty hopeful that it should flow soon.

Pritesh Chheda: My last thing is any reason why it's delayed in our case, any key reason?

Shalil Shroff: Because it is one case in general, countries like, for example Germany, countries like UK, the Netherlands, you talk Brazil, you talk Argentina, you know it depends on the product and it depends on the registration country. Sometimes you get it fast, sometimes you get it later, we cannot predict it. You know it's not particularly delayed because it is a Punjab Chemical, but it also goes from molecule to molecule depending on what data is required, what they feel is satisfied. If they feel satisfied, it goes quickly. If not, they come back to our consultant and then they come back and then we sit across and say okay, we need to fill in the gap. Please also understand all these data also take time to generate. It's not that you know we can do it tomorrow. So, 99% we follow the guidelines stipulated by each country in terms of registration. But sometimes because of different changes, maybe they ask for some studies, so that's where the delay.

Moderator: Thank you. The next question is from the line of Darshil from Crown Capital. Please go ahead.

Darshil: Sir, just wanted to ask in terms of our margin like at current, like maybe at even before, revenue we been able to get higher margins and so we can expect that now our businesses will be in 15% or 14.5% plus margins always or how would you term it as that as fundamentally due to our cost structure initiatives, our margins are now always just going to be higher than what they were previously. That's the question, sir.

Ashish Nayak: Well, to answer that question, that's on the basis if we look at the trajectory of margins for the last 3 to 4 years that it's almost doubled from single digit to almost 14% to 15% is what we are doing. As of now, it is something to do with the current product mix that we have, okay and the markets that these products are being sold in. So, while for the existing products as well, we are looking at newer markets with better margin profiles. We are also rolling out newer molecules, something which we keep on saying in each of the investor call and the newer molecules that we are looking at, we are typically looking at molecules which are niche molecules, which are slightly higher priced and which have a better margin structure. So, yes, obviously we are working towards improving the overall gross margin and EBITDA margin profile. So, that's what we are working towards, yes.

Darshil: And sir with regards to the outside scenario, we as **maybe or not to someone from** industry what can we see as an inflection point that may signaling a turnaround like what part that you would say that okay, maybe like this is something that signifies the turnaround, or what timeline do you see first, maybe that things can make the prices that we had can go back to what they have been. Something on those lines, anything on the macro side that you feel say okay, this is the timeline and after this we'll be able to turn around?

Vinod Gupta: So, I think I responded to this question earlier. There is nothing going to be like inflection point. Yes for product specific, there may be an inflection point depending on the season and the supply chain and inventory in the market, but overall this inventory liquidation is happening at a healthy rate. That's what we know. And gradually the conditions will improve. And then we are quite confident that the volume recovery should happen in the next financial year followed by price recovery.

Moderator: Thank you. The next question is from the line of Rohit from ithought PMS, please go ahead.

Rohit: Sir, a few questions. So, in your H1, if you can share what was the contribution of your two key products, Metconazole and Metamitron? So, if you can just share that what percentage of revenue in H1 you have from these two and if you can share a bit about these two products in terms of competitions who are apart from us, manufacturer or what is our market share?

Vinod Gupta: So, I think rather than specifically saying that what is the contribution of the two products, all I can say that yes, we have been able to provide competitive solution and our plants are fully utilized for these two products. Yes, competitive landscape is there for one of our products, but based on our efforts to improve efficiency and being in close touch with the customers, we've been able to make sure that the capacity utilization remains healthy.

Rohit: Right. I think in the beginning of this year you've mentioned that Metconazole you're looking at almost 100% growth. So, are we on track for that? I mean in this year, the first half?

Vinod Gupta: So, I think what we mentioned is our capacity will be fully utilized and that continues to be the case. So, last 12 to 15 months, our capacity is fully utilized, and we continue to utilize our assets fully. Yes, there is a projection from the customer on some upward demand picking up in next couple of quarters and we are gearing up for that requirement.

Rohit: And in the past you sort of mentioned that you have aspirations in the near term of Rs. 1500 crores which given the industry situation, you're sort of pushed it by a year or so. And then you talked about beyond that as well, Rs. 2500 crore – Rs. 3000 crore. So, I know, I mean the industry has been very challenging. Can we just talk a bit about given that context, how are you tracking for that number? I know the topline growth has been a bit tepid, but if you can just maybe apprise all of us what's your revised thought process on these numbers and target?

Vinod Gupta: So, I'll add my points and then I'll ask maybe Shalil to add to this. Only thing I would like to mention is we are very excited about the product pipeline that we are building and with these product pipeline with our customer interactions, we are confident that we will be achieving these targets in near future. That's all I would like to say. I think we have been giving some growth projections, which I think based on our effort on R&D, product development etc. will only get accelerated with time and maybe ask Shalil to add if he wants to add something to this.

Shalil Shroff: Yes. So, as Vinod said, our product pipeline is pretty robust and the products which we have in pipeline in terms of our order book position, you're right, we had mentioned 1500 and we had tapered it down because of the environment and the inventory. Please understand that the order book position is just delayed. In fact, it is increasing and as far as our product, as I said, it is robust and we believe if we are in 23, in 25, 26, 27, we are looking at product to product getting registered and making sure that the commercial production start so we are absolutely as per tracking what we have been telling and we are very excited. In fact as we talk with opportunities, there is always with the downtrend in terms of industry, there is always an opportunity and we are getting this opportunity as even Vinod said that you know our focus is agrochemical, but we are also looking at intermediate and specialty chemicals and we are also very excited. There are few products which we have already launched, already started giving, but as I did mention that these all will take anywhere between 12 to 18 months to commission that.

Rohit: Sure, sir. Understand. And there was one more question I had. I think in the last couple of con-calls, you talked about your scaling up especially in the Latin American market, if you can talk a bit about that and I think there is a product called Diflufenican, if you can also talk about that, whatever you can share, how the scaling up of that market and if you can talk about that product also that will be helpful.

Vinod Gupta: So, I think on Latin America market, whatever efforts we have put in has yielded good results last year. We are now looking at some more countries in that market and some more registrations. Obviously, the challenge is that in Latin America market, registration can be anywhere between 36 to 60 months, but work is going on. We have tied up with certain partners and we'll continue to expand our presence in that market.

Rohit: And anything on that product if you can share?

Vinod Gupta: So, last year, I think we did good and this year again we have already started interactions with our customers for the next year's demand where the season is slightly late in the year, but we have already started interactions and discussions with them as to how to grow our presence in the market. And we are confident given the competition, given our product quality and given the kind of service that we have provided them, we are confident that we will be only strengthening our position in that market.

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

Chirag Shah: Realization is Rs. 100 for existing current product. For the new product that you're launching, what your realization would be, how much it would go? Would it be like something like 20%, it would be like Rs. 200 increase?

Vinod Gupta: So, Mr. Chirag, I think Mr. Shalil has been mentioning that currently we are looking at products which are high value products. And these chemistries that we are talking about are multi-step chemistries which can be anywhere between 4 to 5 steps to 10 to 15 steps. Accordingly, the product pricing will be higher. Our primary focus has been to move towards products with higher value. Now it's difficult to quantify at the moment, but broadly we can say that yes, we are looking at products which are of higher value where I think our presence in the market can be long term really sustainable and profitability also become sustainable.

Shalil Shroff: Just to add to Vinod, as we have mentioned that we are looking at higher value products and we have already been looking at our EBITDA as even Ashish mentioned that we were single, then we went to double. We are at 14%-15%, but our target is to look at 18 plus and we are very hopeful in the next 2 years. With the product pipeline we have, we will be able to achieve what we are trying to accomplish towards our final goal, yeah.

Moderator: Thank you. The next question is from the line of Harish Beria, who's an investor. Please go ahead.

Harish Beria: I have a question about the working capital. So, in the past our working capital intensity used to be quite low and this has increased quite significantly and I can see that it's largely being driven by receivables. So, sir, what's the receivable days at which this should stabilize going forward?

Ashish Nayak: So, if you look at my receivables trajectory over the last 2 to 3 years, it's somewhere in the range of 50 to 60 days, on an average. What has happened as I've mentioned in my speech as well as you can see it in the presentation, this particular quarter, I would say the percentage of sales in the domestic market has been slightly on the higher side, which also means that because the credit period in the domestic market is higher as compared to what it is in the international markets or exports I'm saying. So, yes, the profile and because of which the number of working days for receivables has gone up from almost 50 days, 52 days to 72 days, but again at the end of it, these are normal sales and we expect the realizations to happen very soon. And as far as going ahead is concerned, yes, our focus will continue to be on both our exports as well as domestic and it will all depend upon the product mix that we are able to depending upon the dynamic situation and the times and the opportunity as it presents itself, what call we take at that point of time. So, while we are working towards reducing the working capital to a great extent, but it's nothing alarming as of now. It's well within control, yes. And on the other side, if you look upon it, my inventory has been very well controlled because that's something which is in my hands. Receivables is something, I mean it's market driven. I mean again in case of domestic, the credit period is relatively long as compared to in exports, yes.

Harish Beria: Yes, I think our working capital anyway is the best in the industry right now. Just to follow up to this would be as we scale up in Latin America market, will our receivable days also increase because generally we see Latin American Agchem works on higher working capital cycle.

Ashish Nayak: To some extent, yes.

Vinod Gupta: To some extent, yes. Ashish, let me add, but broadly our operating model has been slightly different. And so that's where we have been slightly conservative in terms of making sure that our working capital cycle does not go up. And also we sort of make sure that the money is received. These are the two factors for Latin America market. So, our approach is slightly conservative and that has worked so far. So, I think it will remain in the similar range maybe slightly, yes.

Shalil Shroff: And just to add, you know in the Latin American market, we work with multi-global companies, so our reliability towards this credit is not on Argentina, but because it's a global company, the payments either come from Europe or US.

Harish Beria: Okay, makes sense. My second question is there is a question about Lalru facility. So, if my understanding is correct, now Lalru is only being used for specialty chemical or does some of our CMS or Agchem products also get manufactured in Lalru or is it just dedicated to specialty chemical products?

Vinod Gupta: Our Lalru facility is mainly for pharma products and specialty chemicals. We don't make any Agchem products on that site.

Harish Beria: In that case, how much capacity do we have left at our Derabassi plant to further utilize given all our plants, I think we have 15 molecules in pipeline. How much capacity do we actually have in Derabassi?

Vinod Gupta: So, see if you look at our product pipeline, there are products which are in specialty chemical segment also. So, the specialty chemical segment will go towards increasing capacity utilization for Lalru. And products which are related to crop protection, we are looking at freeing up some capacity in Derabassi and maybe we are looking at making some investment to create some capacities in Derabassi. Also as we have declared earlier, at the same time we are also started looking for a new site where we can look at our future growth, especially in crop protection and specialty chemicals.

Harish Beria: And I think in the past, we used to talk about some of the intermediates that we were going to manufacture for pharma companies. Have they already been commercialized and what's the status on that?

Vinod Gupta: I think for some of these products, we have given samples to the customer and those samples are under approval. As the samples get approved, we have also started looking at the facility where we can make, so we have started mapping our facilities and typically the approval cycle in pharma is slightly longer. So, that process has started.

Harish Beria: And my final question would be about I think there were few questions from earlier participants as well about realizations and volume mix of our products. And I think you guys answered that more or less our volumes have been maintained this year. So, the drop that we see in sales is largely due to realizations. Is that a correct inference?

Vinod Gupta: I think it's a very dynamic situation. See the completely topline is a factor of the volume, price, product mix, market segment, etc. But yes, I think so what our capacity utilization is showing that we have been able to maintain the capacity utilization.

Moderator: Thank you very much. The next question is from the line of Suresh Pal from Peace Wealth Capital. Please go ahead.

Suresh Pal: My question is UPL, this year can we expect any sales growth? I know some pricing pressure is there, but at least can you expect some sales growth?

Ashish Nayak: I mean UPL is one of our key customers. We have other key customers as well and we are regularly in touch with all the customers. And I mean as of now depending upon the market scenario and the liquidation of stock, we are taking joint decisions on product-to-product basis. So, yes, so we are very closely in touch with all our key customers, and we are keeping a very close watch on the markets and the products here.

Suresh Pal: Please continue sir.

Shalil Shroff: No, just to add what Ashish said that globally with all our customers, we are back-to-back in touch to understand how the market is not only within the agro sector but also in the other intermediates and specialty chemical sector to ensure that what we are working with them is more on long term and always I've told you that all our agro customers whom we work with own registrations and in which we become part of their process in registration. So, it's a very robust and a very different way in which we work towards the customer and the product profile. I just wanted to add that, yeah.

Suresh Pal: But if you see 2-3 years down the line, then they definitely will go right, from what we are today, right? Is that correct understanding, sir?

Shalil Shroff: Of course, I mean you have seen where we were and where we are. You have seen our Q1, you have seen our Q2 results compared to what is happening in the market. So, I think that replies for itself.

Suresh Pal: And we can expect some margin growth as well, right?

Shalil Shroff: I mean, I did mention on somebody who asked me, so the product pipeline which we are in that yes, I mean today we are at between 13% to 15% at EBITDA and our ultimate aim and ultimate area of moving in the next 2 years is looking at 18%, yes, 18 and plus.

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

Rohit Nagraj: Sir, just one question, while we are talking to our international customers, what is the feedback that we are generally getting now in terms of whether they are still in wait and watch mode? The inventory situation has started normalizing or is it still going to take some more time to get it normalized. So, just our dialogues with those customers in terms of the industry dynamics, your views on that? Thank you, sir.

Vinod Gupta: So, I think one good part of this whole, this current challenging time is that none of our customers, where we are talking about new business, product or anything, they have lost any interest. It's just that everybody realizes that this is a phase in the industry that will also pass through. So, broadly that discussions are going on at the moment, which are in healthy direction. In some cases, I think the product commercialization will happen quickly because those products are not impacted by current supply glut. There are other cases, I think it's more of a wait and watch for the customer to assess the market situation and see where does the market stabilize. So, it's a mixed bag, but overall I think we have not lost interest from any of our customers. We continue to be in dialogue with them. Everybody understands that the pressure that has come mainly from China, this again is not for the first time they are seeing it and our dialogues, and they are very keen to work with us on the products as the situation becomes stronger.

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

Viraj K: Question is largely on the product mix part, so if you can just give some perspective on let us say the top five products, what will be the share of revenue from that in the say H1 or Q2 24?

Ashish Nayak: Viraj, I'm sorry I'm not in a position to comment on the product or the values that these top products would be contributing. Yes, but what we can tell you is...

Viraj K: Would there be any material change in terms of contribution from top five compared to FY23?

Ashish Nayak: It's a dynamic situation and month to month, quarter to quarter, things are changing.

Viraj K: I'm talking about H1, sir. I'm not getting into exact percentage.

Ashish Nayak: So, even in terms of H1, I would say some of the products continue to be there. There are some new products which have been added in the top category. Yes, that's how it is.

Shalil Shroff: Yes. So, just to add to Ashish, as you said from Q1 to Q2, I mean, you know, Vinod did mention in his opening remarks that we have now got a R&D team in place and we are looking at process parameters and we've been working for over last 24 months and that definitely has given us a better leverage in terms of our competitors. Our pricing has been very good, and we have worked very good. Unfortunately in terms of specific numbers, specific details will not be able to give. Also, you know certain products are technology driven with the customer and that's all under confidential agreement.

Viraj K: No. So, basically what I was trying to get at is contribution margin, right. So, Q1, there was a margin at the gross level was quite healthy. Q2, we've done a very high contribution margin. And if I look at the annual basis also for last 6 years, the peak was 41 in one of the years. And the pricing was favorable for the industry and even for us. So, in an industry where in our business where more than 70% is contract manufacturing and where typically all the RM efficiency is one derived, majority is shared with the customer. So, in that background and you know if I have to add another new product also, the scale of what we are expecting will start flowing in from Q3-Q4, some bit and materially from FY24. So, I'm just trying to understand, was it that whatever inventory adjustment we had to take was bulk was done in 23 and while the prices are at where they are, we got the benefit of low RM as well, which is aiding this. So, I'm just trying to understand, you know, when you see the product mix part?

Shalil Shroff: So, it's a mix of both, but it's also a good efficiency improvement, which we have done looking forward and of course working with the customer in terms of raw material as well as, so it's a mix of both. As I said very specifically, we cannot discuss because with due respect of your question, but with folded hands, we cannot do that because we are under confidential agreements and on such calls it's not appropriate to talk on what product margin, what we did, what not we did. But overall, the focus is what you have seen from Q1 to Q2 will flow for this year and more and more in the coming years. As I said, we are very optimistic. We are working with a very strong product pipeline. We're looking at products with higher revenue in terms of per Kg like we're looking at, we started with oxalic acid which used to be a dollar a kilo. We went to $25, $50. We're looking at $100, $150, $200 a kilo. So, the total product mix the understanding of what Punjab Chemical is changing and which you have been seeing and will be continuously working towards that achievement.

Viraj K: I'll just take this follow up offline. The second question which I had was on the CAPEX part and in this kind of adding up with the overall ambition which we shared, you know, say Rs. 1500 crores or 18% to 20% annualized growth. Now if you look at our Derabassi plant, right, so we are already at the optimum level in terms of what we could go to at the existing facility and given the kind of variation one has to play with the number of products and that will just keep on getting more complex with the new products being added. So, there's a limitation in terms of the volume utilization you can derive from the facility.

Shalil Shroff: I think my friend Vinod just replied to this question 2-3 minutes back.

Viraj K: Right. So, my question was really that even with the debottlenecking or additional investment, will that still be sufficient to achieve the Rs. 1500 crores kind of a target? I mean, obviously with the Lalru scaling up?

Vinod Gupta: Let me repeat what I said. I said, see Lalru, specialty chemicals will go to Lalru. That's where our capacity utilization is only 55%. That can add significant revenue. In Derabassi, right now, we are doing incremental improvement and some addition to our current assets, so that it can take care of our immediate need. For long-term needs, we are looking at a new site. We have already started working on it. We are exploring several options. That's where our future growth will come from. So, we are working on three different fronts to make sure that whatever projection that we have given, we are able to cater to that particular requirement.

Viraj K: So, because any new site will take at least a year and a half to kind of come on stream. So, in the interim you think growth, you know that's really which we have and with the investment we're making is good enough to achieve growth?

Vinod Gupta: I think that is good enough to achieve and we are looking at some other options as well, which I think we are looking at multiple options, so at no moment with the capacity availability will become a challenge for business brokers, what we are working on.

Viraj K: Just one last question. You know, given the way the environment is in the Agchem space right now, you know there is a lot of competition, they are either shutting down plants or putting them on sale. So, is there any thought process in terms of say acquiring any of those units to accelerate the growth which we're expecting?

Vinod Gupta: Again, as I said, we are looking at all kind of options and we are looking at all kind of options and whatever suits our business and wherever there is a synergy that is the kind of decision we will take, which can be any of the options including what you told just now.

Moderator: Thank you. We'll take the next question from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Hi sir, I was just trying to connect the dots. Will we look at some of the customers like UPL is looking at opportunities in pesticide in Jiangsu. Corteva is looking at some collaboration. NK is looking at new products. And Adama is looking at further more opportunities in South America. While at the same time, if we see our international business has dropped from 62% to around 51% or so. Going forward, do you anticipate that you will maintain this mix of almost 50-50 in domestic and international market?

Vinod Gupta: Yes, I think our focus will continue to be able to maintain this balance. These adjustments, what you're seeing on quarter-to-quarter basis is mainly to manage the current market situation where we wanted to make sure that our business continues to work or asset continue to get utilized and we maintain our performance. But in long run, I think that ratio will be what we have been having in the past.

Shalil Shroff: And sorry, just to add to Vinod, please understand that because of the inventory levels as he has said, so that's the reason. So, please don't look quarter-to-quarter, don't look at, please understand today the market situation is very different. Look at overall what Punjab is and the way the trend has been. So, my earnest request would please focus on that and not look more quarter-to-quarter basis especially when the market is very quiet. Just to add that.

Rohit Ohri: Thanks, Shalil bhai. Last question is assuming that this year, we can grow at the GDP growth, do you anticipate, or do you have any visibility for the next year to probably grow at twice the growth rate of India or maybe three times the growth rate of India?

Shalil Shroff: I think Vinod did explain well in his opening remarks and over a few questions. So, as we said that this year becomes the challenge because of the environment and the stock positions in the market across the world. We are very optimistic and the way we look at our product pipeline, the way we have discussed with our global customers, we believe the growth is there and we will maintain that.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference over to Mr. Sumeet Khaitan from Orient Capital for closing comments.

Sumeet Khaitan: Thank you everyone for joining today's call. We are Orient Capital, Investor Relations Advisors to Punjab Chemicals. For any queries, please feel free to reach out to us. I now hand over the call to Shalil Sir for their closing remarks. Thank you and over to you, sir.

Shalil Shroff: First of all, thank you so much for all your time and your wonderful questions. Please forgive us if we have not been able to fulfill many questions, but please understand that the business and the confidentiality we are in with some of the customers, we cannot do that, but we try to do it to our best of our ability to answer your questions. And as you know that we have Oriental Capital and others who are there, you can always reach out to me or to the CFO. And once again, thank you for your time and wishing you in advance a very Happy Diwali, Happy New Year, and Saal Mubarak. Thank you so much.

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