India Pesticides Limited

(NSE: IPL, BSE: 543311)

Transcript of analyst earning call

First quarter ended June 30, 2021

July 23, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2022 Earnings Conference Call of India Pesticides Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Krishan Parwani. Thank you, and over to you Sir!

Krishan Parwani: Thank you, Aisha. Good morning everyone and thank you for joining us on India Pesticides Limited Q1 FY2022 results conference call. Today we have with us senior management team of India Pesticides represented by

- Mr. Anand Swarup Agarwal, Non-executive Chairman, India Pesticides Limited

- Mr. D. K. Jain, Chief Executive Officer, India Pesticides Limited

- Mr. S.P. Gupta, Chief Financial Officer, India Pesticides Limited

- Mr. Rahul Bagaria, Director India Pesticides Limited

I would now hand over the floor to the management for making the opening comments post which we will open the floor for Q&A session. Over to you Sir!

Rahul Bagaria: Thank you Krishan. A very warm welcome to all of you to this conference call to discuss the financial results for the quarter ended 30 June 2021. Trust all of you and your loved one are safe and in good health. Let me begin with safe harbor statement. During the call we can make forward looking statements and these statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake an update these statements periodically. With this I pass it on to Anand Ji.

Anand Swarup Agarwal: Thank you Rahul. Good morning to everyone. I am overwhelmed to meet all of you again and for the first time after listing. At the onset, I would like to state that we are thankful to all of you for the phenomena trust and confidence that investors have shown to IPL. I am sure with IPL we will work with even more responsibility, zeal and enthusiasm in the best interest of all our stakeholders. At the onset, I hope that all of you and your family members are safe at these unprecedented times. World over there are mixed signs of improvement in the COVID-19 situation with increasing vaccination on one side, a newer variant from the other we at IPL had been able to smoothly navigate ourselves throughout the pandemic with the foremost priority on the health and safety of our workers and employees. It is only because of our team effort that we have been able to achieve such robust growth and profitability even during these volatile times.

As a matter of good corporate governance measure, I would like to clarify and state on this platform some questions that we have been receiving from some of our investors. I would like to state on the record that the gross remuneration of our CEO is Rs.9.18 million per annum and that of our CFO is Rs.3 million per annum. Further one of our independent directors retired in February 22, 2021 due to preoccupation as he was director in 7 listed companies. As per applicable law, a person cannot be a director in more than 7 listed companies and hence in order to comply with the above regulation, he resigned from the board of our company as his continuation on our board would have resulted in him being a director on 8 listed companies. With the resignation of the independent director, one of our executive directors was also required to resign to meet the applicable board composition norms of the listed companies.

Further some fractional percentage shares of the company were issued in the month of January 2021. These shares were issued by the following applicable provisions of the Companies Act 2013 and has been duly disclosed in the offer documents. Further one of our R&D facilities is situated on the land owned by a group company. For the said use a lease agreement was entered into more than 10 years. Please note that the DSIR recognition of the said R&D lab is in the name of India Pesticides Limited only and said lab is used exclusively for our company's operations.

Moving forward, our focus will continue to be on accelerating growth with sustained building new age capabilities to strengthening our work and making our business model more and more resilient. We are witnessing a stable growth for our production operations efficiency. We are engaged by the growing scale and the scope of transformational opportunity ahead of us. We have better visibility in the business and our pipeline continues to be strong and ensuring our strongest FY2022. I am sure that we will be able to deliver sustainable growth with balanced profitability in this fiscal year too. With this, I pass it on to Mr. Jain.

D.K. Jain: Thank you very much, Sir. Good morning to everyone, our strong start to the financial year 2022 underscore the resilience of our business model and the continued commitment of our team. For the quarter our Revenue was up 46% and our EBITDA margin was up 70% on year-on-year basis. At micro level the pandemic has re-emphasized the importance of agro and other specialty chemicals for the humanity at large and the industry continues to provide ample growth opportunities. As you know China plus one policy and this is continuing to remain as a high growth factors for the Indian chemical industry. Our key strategy is to keep focus on niche molecules and keep innovating by way of better R&D focused product re-engineering to deliver top notch quality products to our customers. Our focused execution of our strategy supported by improving microeconomic indicator and market sentiment positioned as well as the strategic partner to our customers looking to have sustainable dependable partner. This is helping us gain market share and command better pricing.

Let me now take you through some of our key recent developments. I am pleased to state that our wholly owned subsidiary has received allotment of approximately 25 acres of land for setting up plant. We have already initiated process for the registration of land and would soon apply for necessary environmental clearances. Also as I stated earlier, we have a few projects in the pipeline at our existing site. We have launched two new technical products in this quarter, which are well ahead of their initially planned schedule. These products are being sold to some of our existing customers as well as to new customers. Towards our commitment to follow best safety health and environmental practices, we have submitted our application to EcoVadis**.** We have uploaded all the data required and are expected to have the registration in the coming quarter. This will significantly boost our on boarding new customers, especially in the export market.

With this, I would like to pass on to Mr. S.P. Gupta to walk through our Q1 financial highlights. Mr. S.P. Gupta!

S.P. Gupta: Thank you Jain, Sir. Good morning to everybody on the call. A strong start to the new fiscal with a broad-based growth is a testimony to the focus and successful execution of our strategy. On a standalone basis, Y-o-Y the revenue grew by 46% to Rs.170 Crores and EBITDA has grown by 70% percent to Rs.59 Crores. On quarter-on-quarter basis revenue grew by 28% and EBITDA grew by 55%, EBITDA margin on Y-o-Y basis moved from 30% to 35% and on Q-on-Q basis, it has moved from 29% to 35%. Due to this year-on-year profit after tax grew by 72% to Rs.42 Crores on standalone basis. EPS grew to Rs.3.6 from Rs.2.19 per share of a face value of Rs.1 each. ROE has increased from 35% to 39% and ROC has increased from 47% to 54% percent on a year-on-year basis. The cash and cash equivalent on the books were Rs.60 Crores as on June 30, 2021. We are net debt free as on June 30, 2021. This quarter the company has demonstrated a strong top and bottom lines primarily because of better pricing and yield improvement. On that note, I conclude my remarks and we will be glad to discuss any questions that you may have. I would now like to ask the moderator to open the line for question and answer session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Himanshu Binani from Antique Stock Broking. Please go ahead.

Himanshu Binani: Congratulation on a very good set of numbers so I just have one question this is regarding to the margins side. So we have actually seen substantial improvement into the margins both in the gross as well as EBITDA margin side so just wanted to understand the reason behind it and how sustainable these are going forward?

D.K. Jain: We could get better margins this quarter. This is because of two to three points, number one was we could get better operational efficiency and number two, we could get better margin because we made some special grade products, which we could get a better price in the market that is why the margins are up and we hope that this will be sustainable.

Himanshu Binani: So going forward, how should one look at the margins profile both on the gross margins as well as on the EBITDA margins in the medium term?

D.K. Jain: The margins what we have reported they will be more or less in the same range.

Himanshu Binani: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Thanks for the opportunity and congratulations on a good set of numbers. Two questions from my side, one is we have launched two new technical during the quarters, can you throw some light on those two new products, the market, will it be similar customer and what was the size of those markets and second question was your view on the upcoming kharif season, I know ours is majorly export driven, but what you feel, you will be in a better position to give us a view on that as well.

D.K. Jain: The two products what we have soft-launched now they are for domestic as well as for export markets and presently, there is good domestic demand so we are able to cater to the domestic needs and they are quite a reasonably good molecule and we will continue to get volumes in these molecules.

Nikhil Rungta: I believe our share of herbicide sale was high during the quarter right?

D.K. Jain: Yes, that is true. Because initially season when there is sowing this herbicide use is little more and thereafter the insecticides sales starts.

Nikhil Rungta: Margin as you indicated will continue to remain in the similar range of what we have reported in this quarter?

D.K. Jain: Yes, Sir.

Nikhil Rungta: And Sir your view on the upcoming Kharif season in India I mean monsoon has been very erratic so being based in the hub of the agri, your views on that.

D.K. Jain: Yes monsoon has been delayed and it is a bit erratic, but as the time is progressing the monsoon is getting averaged out over the years so that is why the sales will pick up now.

Nikhil Rungta: So do you expect this Kharif season to be similar to what we had say last year or two years back? Or do you see the growth of the industry in this Kharif coming back?

D.K. Jain: I think Sir it will grow, it will be more than last year consumption that is much true. The overall industry is growing at 7% to 8% per annum Indian industry itself.

Nikhil Rungta: And Sir last question I believe the margins in herbicide is higher compared to insecticide for us so going forward, do you see the share of herbicide growing in our total revenue pool or it will remain stable at what we are currently?

D.K. Jain: We have a mix of products herbicide as well as fungicides and both will grow together and margins sometimes one is low, one is high, but it keeps on moving here and there but overall the margins will be there.

Nikhil Rungta: Got it and by when do you expect reply for EcoVadis, I mean your internal assessment?

D.K. Jain: Sir we have already uploaded all the data required for that and we got a feedback from them, because this is the COVID period it may little time, maybe three to four weeks.

Nikhil Rungta: Okay sure that is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thank you and congratulation for a good set of numbers. So, first question on the revenue growth in this quarter, you did mention you know, the launch of two technical here and probably some bit of domestic contribution so, how much of the revenue growth rate is coming from the existing products and from the newer one if you can help us on that?

D.K. Jain: New one we have just launched recently and we have sold, we have done the seed marketing to our existing customers and to some few new customers and the full-fledged effect will come by March next year.

Ankur Periwal: Sir full-fledged impact by March next year by Q4 of this financial year?

D.K. Jain: Yes Q4. It will come but it is slowly improving and we have done the seed marketing.

Ankur Periwal: The products that we had launched in the last one, two years, is there are ramp up which is seeing or the older one is also growing at a similar pace?

D.K. Jain: The older one is also growing at a similar pace. We are now presently in the process of expanding the capacities of even our existing products.

Ankur Periwal: That is helpful. The new plants which you are referred to wherein we are expanding the capacity, by when do you expect them to be commissioned, any delays there because of COVID, any timeline you can share will be helpful?

D.K. Jain: Our schedule is to get it done by February may be maximum by March end, it will be ready. Initially we had some little delay in supplying some of the equipment, from our equipment vendor, but now things have improved and now everything is coming up.

Ankur Periwal: Okay, fair enough. Sir, lastly on the margin front now, some of the peers or we are seeing some bit of inflation on the raw material here, this quarter spread numbers that look pretty impressive on a year-on-year basis, are you seeing any inflationary trend on your raw material side and if at all that will be immediately passthrough as a price hikes as well?

D.K. Jain: We are not seeing any major raw material inflationary trend in the raw material what we are buying and if there is any marginal we will certainly pass it on to our customers.

Ankur Periwal: Okay, that is helpful Sir. Thanks for all your answers and all the best.

Moderator: Thank you. The next question is from the line of Rikin Shah from Omkara Capital. Please go ahead.

Rikin Shah: Thanks for taking my question. I just wanted to ask how do you see the export segment going forwards, if you could give us some color, also breakdown in future and how is the China plus one commentary, is it still strong now in our industry?

D.K. Jain: China plus one policy certainly is in place and we are getting lot of enquiries and we are already working in their client only and our export since it is also quite good, absolutely there is no problem in that account.

Rikin Shah: How do you foresee like any breakdown if you could give in the future?

D.K. Jain: I will pass it on to just a minute.

S.P. Gupta: I think so our exports are going to be in the same percentage what we are forcing, this is probably around 50% to 60% of exports on a topline basis.

Rikin Shah: Alright and if you could give me some color on the two new technical molecule that we have launched like the opportunity size, how that it could be for us?

S.P. Gupta: I am sorry, can you repeat?

Rikin Shah: Two new molecules that we launched like what could be the opportunity size of them?

D.K. Jain: Two new molecules what we have introduced. One is in herbicide and one is in insecticide and there is a very good opportunity. We see by next year one molecule should get at least Rs.80 Crores to Rs.100 Crores and the other molecules we get at least Rs.30 Crores, Rs.35 Crores.

Rikin Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Atishray Malhan from Dron Capital. Please go ahead.

Atishray Malhan: Good morning. Thank you for taking my question. Congratulations on a great Q1. I have a few basic questions, just to understand the business a bit better. Firstly pertaining to the technical business. In this business segment, do you primarily operate by a short term contract with your clients and if so what is the typical length of these contracts?

D.K. Jain: Normally our major business is our long term contract five to seven years and part of the business is short term, but ,major of the equipment is long term only Sir.

Atishray Malhan: To a previous participant you had mentioned that if there is an increase in the raw material prices, you can pass it on to your clients, how frequently does that price negotiation happen, I just want I am trying to get a better sense of is, how insulated the business is to increasing raw material prices?

D.K. Jain: Yes, normally what happens we have is the contract, the clause that there is change in the raw material pricing or any other changes, we can renegotiate and normally we see it every quarter or every half year depending upon the change and then we work out the new price and then it gets effected.

Atishray Malhan: Right, fair enough, so there is like quarterly lag essentially, but Sir, there is also work the other way round, let us say raw material prices do decrease and the client also renegotiate a decrease in price Sir?

D.K. Jain: Obviously because the customer would like to see that his purchase price is lower, but there is a direction then what we have to see that not only the raw material cost, but the overall production cost, the maintenance and the manpower everything to be taken into consideration, all the cost required and based on that we workout.

Atishray Malhan: Is it correct understand that the absolute gross profit has been maintained and then based on the increase in volumes, the absolute gross profit would then increase?

D.K. Jain: Yes, certainly.

Atishray Malhan: Fair enough Sir. Thank you. I have few more questions, but I think I will just come back in the queue.

Moderator: Thank you. The next question is from the line of Siddharth Gadekar from Equirus Securities. Please go ahead.

Siddharth Gadekar: My first question is regarding was between active ingredient and formulation for the quarter and what kind of growth have you seen in Y-o-Y in these two segments?

D.K. Jain: Technical sales during this quarter was around 70% and for farm is around 30%. Since this quarter is primarily focused in India, so formulation is still higher in Q1 and Q2.

Siddharth Gadekar: Okay, got it. Sir in terms of freight have you seen any higher cost because of freight, because that is all reflecting in our margins. Our margins have improved sequentially as well, so there were no issues in terms of freight and logistics?

D.K. Jain: Freight and logistic, no effect on margins, there was slight delay in some containers for may be one week delay in export container, but not these has been resolved earlier in May there was some delay in arrangement of container, but freight is some we are exporting to many customer on FOB basis, so the freight has taken care of by them only.

Siddharth Gadekar: Okay Sir, got it. Thank you.

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

Amar Mourya: Thanks a lot for the opportunity Sir and congratulation for a very good set of numbers. My first question is on the technical side, broadly if we see the overall growth in our revenue was largely linked to the capacity expansion of our technical business and we had been able to do a very massive expansion from 2019, 2020 to 2021, so I wanted to understand how the expansion would be in terms of the capacity in 2022, 2023 and 2024 on the technical side, if you can give me the percentage that is okay for me?

D.K. Jain: We already have plans for expansion of our capacity in our existing plants as well as we have bought a new piece of land as I informed earlier and going forward we will be having new products at the new sites, so our capacity will keep on increasing year by year.

Amar Mourya: If our technical capacity today is 100, in 2022, it would be what at least already increased by 20%, 30%?

D.K. Jain: It will increase by at least 20%.

Amar Mourya: 20% in 2022 and you will have the further space for 2023 because I believe the new plant which you have indicated, will at least take more than a year to come on the surface right?

D.K. Jain: Yes that is true because first we have to go to Ministry of Environment, to get the environment clearance then we should take, so it will take at least one-to-one-and-a-half years.

Amar Mourya: Correct that is the reason as you indicated in 2022 capacity will at least increase by 20% and will you be having the further space in the existing plant to increase the capacity further by 20% in 2023?

D.K. Jain: In 2023, also we have plan, so we have two years plans at our existing site this year and the next year we have got the capex planned for the existing site and thereafter at the new site. In between we will be spending some amount on the plant, the land acquisition with registration and the land development and other initial expenses.

Amar Mourya: If I can squeeze two more questions. Number one is, what would be the capex which we will be doing for 2022 to 2023 for this existing plant and what would be the broad capex for the new plant?

D.K. Jain: We will be having this next year for our existing site, we have plant a capex of about Rs.80 Crores and for the new site, it will be Rs.300 Crores to Rs.350 Crores in two, three years time.

Amar Mourya: Okay and Sir, sorry to again harp on the margin front, just wanted to understand little bit more on the margin and the profitability, so what I can see here is that overall your RMC to sales broadly remain same in the 2021 versus 2018 so basically the broader change which has happened from the operating leverage play, so is it like as you improve your scale, you do not think so that you will need to deploy more marketing sales employee, new plant commissioning, so what gives you confidence that 28%, 29% kind of margin is going to sustain going forward?

S. P. Gupta: Majority of our turnover is on technical sales which is sold to MNC on contract, so we do not have to incur higher marketing expenses which is for formulation business will be current quarter 30%, long term will be around 22% that will be there and our operations, our capacity of existing plant increases and expenses does not increase in the same ratio, we are quite confident that our margin will in this range only.

Amar Mourya: Thanks a lot Sir. I have a few more, but I will come back in queue.

Moderator: Thank you. The next question is from the line of S. Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: Thank you very much. My first part is looking at your working capital cycle can you share some light on in terms of the inventory receivables and the net working capital cycle?

S. P. Gupta: Our debtors they are in the same range as well in the March 31, around 140 days it has declined from 190 days in FY2019, inventory level has slightly moved up in June since we are doing a lot of kharif sales through our branches in India, but it will be normalized after second quarter.

S Ramesh: Okay and the second thing is looking at your exports if you said contract, can you share with us what is the region of this contract in what percentage of sales is from contract?

S. P. Gupta: Contract will be contributing around 40% to 50% of our entire turnover.

S Ramesh: 40% to 50% of?

D.K. Jain: Overall turnover, technical sale will be around 70%.

S Ramesh: Looking at the margins you are enjoying on your contract, since margins which are much higher than other company which has entered the contracting business, is it based on asset light model where they give you some finance for setting up the capacity or do you have to setup the capacity and then capacity for certain period, can you throw some light on that?

S.P. Gupta: Technically the margins that we select is the operating function of this since we have international molecules and we get better margin, better price for this kind of contract and we have more of a sustainable partner with our customers on this part of business for them that is why we are able to command a better pricing in our contracts as compared to our peers.

S Ramesh: I understand, I just want to understand how your business model works, so do you have to lock some of your capacity normally in the multipurpose plant and do you enter into contracts for five to seven years and give you stability in the margins, so I just want to understand in terms of how long is a normal contract and do you have to invest in capacity for each contract?

D.K. Jain: Normally these contracts we enter with our customers is long term five to seven years and in general we have a policy to have dedicated plant for these products and initially what we do that is we agree upon a certain price and based on that then we keep on with the variation depending upon the overall cost, there can be minor reduction or increase in the price of the product that is how we work with the customers.

S Ramesh: Thank you very much. I will join the queue and wish you all the best.

Moderator: Thank you. The next question is from the line of Ashish Sabat from Motilal Oswal Asset Management. Please go ahead.

Ashish Sabat: Thanks for the opportunity. Sir, is there a seasonality in our business in the sense that if kharif season forms a large part of our total business?

S.P. Gupta: Our first half contributes around 52% of annual sales, our export sales is equally spread around the year, but in land sales because of this kharif season, it is heavy towards first half of the year slightly.

Ashish Sabat: Okay, fair enough and we do on a concentrated portfolio of around 8 to 10, 12 products and we were wanting to double this portfolio, so if you could share any timeline as to what is in your mind by when we can see portfolio getting doubled in terms of what we have?

D.K. Jain: We have pipeline of products already under execution and we have already soft launched two molecules this quarter itself and other molecules would be joining by December and then by March and next year by July, August, we will be having a portfolio of eight products, so our product portfolio will increase from present 8 to 9 to almost 17, 18 products.

Ashish Sabat: Okay and any update on the dithiocarbamates you would like to do how that product has this?

D.K. Jain: Pardon.

Ashish Sabat: Any update on the dithiocarbamates, how does product has this?

D.K. Jain: We have a range of dithiocarbamates fungicides as well as herbicides and they are doing quite well.

Ashish Sabat: Okay, Sir just last question in terms of again dwelling on these margin side, you said EBITDA margin could broadly be maintained in the current rate, so on the revenue side if you could help us give breakup of volume and the prices that could be helpful?

S.P. Gupta: Our volume this quarter rose by 39% including this technical and formulation and value wise we have risen by 44%, per unit realization has slightly improved during this quarter.

Ashish Sabat: Okay, fair enough. This is very helpful. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: Good morning and thank you so much for your time. I just wanted to check that the new molecule pipeline if there was there any development, which have gone ahead and for the next phase of capex, which you are planning because I think some our plants are already running at 90% utilization so just wanted to understand if any plans have been drawn up for the next phase of capex for the company?

D.K. Jain: Sir actually we have already launched two products this quarter and the remaining products, already six more products are in the pipeline, which are under execution, which will be coming in the market by this year end as well as may in the Q1 of the next year and we have already plans for expansion of our existing product line also and the capex what we have planned is Rs.70 Crores this year and Rs.80 Crores next year also and apart from this we have got new site, which has been allotted to us and the work on that is starting and after two years we will be having a capex of about Rs.300 Crores to Rs.350 Crores there over a period of two to three years.

Madhav Marda: So the land has already been allotted to us for the new site?

D.K. Jain: Yes it has been allotted to us. We have to get it registered, but it has been allotted. We already received the allotment letter for about 25 acres of land, 1 lakh some 1000 square meters.

Madhav Marda: Understood and the other question I had was that for our key products that you are selling in the current environment is there any product where the pricing is abnormally high due to any supply squeeze in the market where there is risk of selection or...

D.K. Jain: It is not abnormally high Sir. We are selling at the market prevailing prices only.

Madhav Marda: Understood. Thank you Sir.

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

Deepak Poddar: Thank you very much for the opportunity. Just wanted to understand more on the revenue front? Now we have told in the past that reasonable growth going forward is not a challenge for us and last two to three years we have grown at a CAGR of around 38% to 39% and given the capacity expansion also we are into, so a similar kind of CAGR or any comment on that would be quite helpful if you have to look for next two to three years?

Anand Swarup Agarwal: The next two to three years growth will be mainly driven by our capex, so we are projecting a CAGR of around 2.5 to 3 so suppose we expand around Rs.150 Crores during the next two years so those will be generating around Rs.300 Crores in the third year 2.5 times of our capex.

Deepak Poddar: So our capex you mentioned on the new set is about Rs.300 Crores to Rs.350 Crores so that can incrementally generate Rs.750 Crores to Rs.800 Crores of topline?

Anand Swarup Agarwal: But that will come from third year onwards, third, fourth and fifth year from now.

Deepak Poddar: But the kind of CAGR we have seen in the past so given the market so are we confident?

Anand Swarup Agarwal: The CAGR last year I think it is three years 35%, but it will slightly moderate based on, but it will be robust based upon the capex. It is better than industry average, far better than industry.

Deepak Poddar: Fair enough. I got it. That is it from my side. All the very best.

Moderator: Thank you. The next question is from the line of Mittal Soni from JP Investment. Please go ahead.

Mittal Soni: Congratulations on good numbers. Sir just some clarifications. I got most of the answers. What would be the sales mix you said will be domestic and export for the company for the quarter?

D.K. Jain: Domestic and export sales is roughly 50% 50% Sir.

Mittal Soni: 50% is domestic this quarter and 50% next quarter?

D.K. Jain: Yes.

Mittal Soni: Okay and second you said is the capex for this year Rs.70 Crores to Rs.80 Crores is at the existing Sandila Plant right?

D.K. Jain: Existing site yes Rs.80 Crores this year and Rs.80 Crores next year.

Mittal Soni: Rs.80 Crores this year and Rs.80 Crores at Sandila Plant and how much will be at the new plant what you are talking this year including land?

D.K. Jain: This year it will not be very substantial. It may be around Rs.20 Crores to Rs.25 Crores Sir, but the next year onwards it will increase because this year....

Mittal Soni: For the land also you are counting this or land has already been?

D.K. Jain: For the land. For the land we have to pay to the government and then we have do some preliminary land clearing and land development work so that would be there and parallelly we would be applying for environmental clearance.

Mittal Soni: So should I take say Rs.30 Crores towards the land and all that and Rs.80 Crores, so Rs.110 Crores total capex this year?

D.K. Jain: This year we have done Rs.70 Crores and not Rs.80 Crores. We have planned Rs.70 Crores this year and Rs.80 Crores next year.

Mittal Soni: Sir my question is that is a capex of Sandila you said is Rs.80 Crores or Rs.70 Crores?

D.K. Jain: There is some confusion. At Sandila, this year it is Rs.70 Crores. Next year it is Rs.80 Crores.

Mittal Soni: For the Kanpur it is Rs.30 Crores.

D.K. Jain: Right it is about Rs.30 Crores mostly this year because now we will be doing all the developmental work.

Mittal Soni: Perfect Sir. So that is there and Sir second, any new major customer we have added during the quarter?

D.K. Jain: New major customer, we have added. We have already added and we are in discussion with a few more US companies.

Mittal Soni: Okay and Sir can we say that with these new five to six products that will come our customer bouquet will also increase so the dependence on any one particular customer will further come down?

D.K. Jain: Yes it will come down. It will certainly come down. We will increase the bouquet of our customers certainly.

Mittal Soni: Okay perfect Sir. Thank you very much.

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

Anisha Mahawla: Good morning and thank you for taking my question. Sir firstly on the capex I would like to understand that the Brownfield that we are doing and the Greenfield that you are proposing to do is that all for technicals or is there some component of formulations also?

D.K. Jain: No it is mostly technical's and intermediates and specialist chemicals.

Anisha Mahawla: Okay got it Sir and Sir do we export our formulations or the formulations only domestic?

D.K. Jain: The formulations are both mixed madam. Actually it is domestic. The branded sales are domestic and for the bulk formulations the customers what our customers they require sometimes so we export in bulk to the various countries.

Anisha Mahawla: Okay and Sir in your presentation and even at the IPOs you mentioned that you are the sole manufactures for five technical's what will be the size of these five technical's or products that you manufacture and is this continuing to grow or is this more of a stagnant market or if you can just give some comment on that?

D.K. Jain: The market is growing actually for our technical what we are manufacturing. The market is growing. Our customers they want us to increase the capacity of our existing plant and we are also undertaking these activities.

Anisha Mahawla: I am speaking specifically for the five technical's for which we are the sole manufactures?

D.K. Jain: Pardon.

Anisha Mahawla: I am asking about the five technical's for which we are the sole manufactures?

D.K. Jain: Yes. We are increasing the capacity and we are working on that volume increase for these five molecules.

Anisha Mahawla: Is there any rough market size that you could comment on for these five?

D.K. Jain: Pardon.

Anisha Mahawla: Some indication on what would be the market size or a credible market for these five technical's?

D.K. Jain: Market size madam it is difficult to tell. It is broad.

Anisha Mahawla: No problem Sir.

D.K. Jain: The market actually it is increasing. It is growing every year.

Anisha Mahawla: Okay got it. Sir the last question that I would like to ask was that if you could just help us understand while you said that Y-o-Y the volume growth was almost more than 30%? If you see Q-on-Q also it has grown very substantially? Is it because there was a lot of inventory stocking from our customers or is it this more of a sustainable demand? What was Q-on-Q jump of more than 20% in our revenue?

S.P. Gupta: Madam last year there was some disturbance due to lockdown, but this year the demand is normal the current year what we have achieved. Last year there may be

3% to 4% abnormal decrease due to restriction on movement on first half months of year.

Anisha Mahawla: I am asking from Q4 that from the March ended quarter to the June ended quarter, we have grown 28% the revenue? You are saying this was because of lockdown restrictions in Q4?

S.P. Gupta: No Q4 and Q1 there were no lockdown. There were no restrictions. We have expanded capacity of our product in the last year and current this quarter it is peak of kharif season so as already informed our sales growth is higher in this Q1 and Q2 of the year as compared to last quarter. On the domestic front, it has slightly dull every year.

Anisha Mahawla: Understood. Thank you so much. Thank you Sir.

Moderator: Thank you. The next question is from the line of Atishray Malhan from Dron Capital. Please go ahead.

Atishray Malhan: Yes Sir. It is possible to bifurcate the revenue in Q1 between technicals and formulations?

S. P. Gupta: Technical it is around 70% and formulation 30%. The long term trend formulation in the first half of the year. Normal trend is 78% technical and 22% for formulation.

Atishray Malhan: Right Sir. Thank you for that. I am looking at your investor presentation and I am looking at the capacity augmentation you have done between the formulation and the technical business so it is much more in the technical side of the business versus the formulation business segment and your current split between technicals and formulation is about 75% to 80% technical, if you could just comment on what you see the split being let us say three to four years down the line and the focus of the company? Is it more going toward the technicals or the formulations business?

S. P. Gupta: It will be the in the normal trend only. It is around 78% technical and 22% for formulation. We will be growing at the same rate in technical as well as in the formulation. Suppose we grow around say 25% in technical, we will grow the same percentage in formulation also. Formulation is slightly lower capex.

Atishray Malhan: Right and Sir am I correct in assuming that this technicals business has higher margins than the formulation business and it has higher return on investments?

D.K. Jain: Yes Sir. We will have little more margins in technicals than in formulation and our focus is more on technicals and APIs.

Atishray Malhan: Sir just one last question from my side. It is about the formulation business? It is just a basic question? Is there any concentration in the formulation business regarding the state that you operate in?

D.K. Jain: We are working across India. We are present in 15 states presently across India and we want to grow this and make our presence Pan India.

Atishray Malhan: Is it possible for you to share the number of distributors you are currently working with?

D.K. Jain: Yes. We have more than 3500 distributors and we have got 20 depots of our own.

Atishray Malhan: Right. I think that is all from my side. Thank you so much and good luck going forward.

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

Rohit Nagraj: Thanks for the opportunity and congrats on a good set of numbers. Sir we have a exponential capex plan over the next few years so in terms of the management bandwidth how are we currently placed and are we taking any steps in terms of expanding our marketing bandwidth both for domestic market as well as for our international operations? Thank you.

D.K. Jain: Yes certainly Sir. Certainly when the business is growing obviously the setup has to grow and we are taking proper steps to augment all these various aspects like marketing as well as manufacturing and maintenance and domestic sales as well as for R&D. Everywhere we are taking those steps.

Rohit Nagraj: Right understood. Sir the second question is in terms of the capex that we planned so what is the basis on which we usually go in for expansion so other than our existing capacities are completely filled and we need to add more capacities or there is some kind of ROE or payback period that we are looking at and when we are finalizing certain products so what are the criteria's that we will look? These are immediate off taking products or probably the domestic market sizes, and there is an opportunity for exports so what are the criteria's that we predominately look when we are going in for the next leg of expansion? Thank you.

D.K. Jain: Sir number one is that mostly what happens that we work with so many customers that we are working and we have continuous discussions with them and during discussions we get to know their requirements of existing product as well as for the new products and then we see the synergy what we have with our existing setup, our capacities and capabilities and based on that and then what volumes our customers requires we work out and then we take up the products for development and once we take up for development we have a mutual agreement type thing with the customer so that when we start production, we can immediately send them the material. That is how we keep on working and based on that we work on the capex model and we already have discussions with so many customers for few number of molecules so we are working on those molecules as well as we are working on the expansion of our existing molecules because the existing customers are also asking for more products because they see a good growth opportunity in these products.

Rohit Nagraj: Right that is helpful. Sir in terms of our capacity fill ups so normally in how many years do you optimally utilize our capacity once the expansion is done?

D.K. Jain: Normally it is about two to two and a half years Sir I think it should complete.

Rohit Nagraj: Alright. Thanks a lot for answering the questions and best of luck Sir.

Moderator: Thank you. We will take the last question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: Thank you for taking my question again. Just wanted to get your thoughts on your estimate of the asset turn? So when you look at this 2.5 to 3 times on your investment capex is on the gross or on the total assets including whatever is the working capital you have?

S.P. Gupta: No it is on gross block only. We have to take additional.

S Ramesh: The second thing is if you look at your overall margin it is possible to share with us what is the kind of additional spreads or margins you get on exports or the contract business compared to the other business because clearly is possibly some difference in the margins or earnings compared to domestic markets so can you share us the delta on that?

S.P. Gupta: The pricing on domestic as well as exports are in the similar range. Even in margin our contract and non contract business they are also on similar range. There is not much difference here.

S Ramesh: Thank you very much and wish you all the best.

Moderator: Thank you. That was the last question I would now like to hand the conference over to the management for closing comments.

Rahul Bagaria: Thank you everyone from the IPL Team for connecting with us. It was pleasure having you. Thank you so much. Hope you all remain safe.

Moderator: Thank you. On behalf of JM Financials that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.