Rallis India Limited

Q1-FY20 Earnings Conference Call Transcript
July 19, 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the Rallis India Limited Q1 FY20 Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited Q1 FY20 Earnings Call. We have with us today Mr. Sanjiv Lal -- Managing Director and CEO, Mr. Nagarajan – Chief Operating Officer and Mr. Ashish Mehta – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussions maybe forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation. I now invite Mr. Sanjiv Lal to begin proceedings of the call.

Sanjiv Lal: Thanks Gavin and thank you all for joining us on our earnings call. I have with me Mr. Nagarajan our – COO and Mr. Ashish Mehta – our CFO.

I would like to begin the discussion by giving you a quick update on key changes, developments undertaken since our last interaction after which I will request Ashish to run us through the financial performance for the quarter. To begin with the measures which we announced in our previous call aimed at transforming the business, are playing out well. Although it may be a bit early to comment on the success, though we can say that we are moving in the right direction.

As you may be aware, we undertook a series of measures towards addressing the growth concerns across all the business areas that is our domestic formulation business and our seeds business as well as the international business. While some of the measures required a complete overall of our existing practices some required more of a fine tuning of the existing structure. Post completion and post stabilization of the new measures we expect the business to embark on a consistent growth phase. Rallis despite its sedate performance in the recent past is still one of the leading players in agro chemical sector with a very strong connect with the farmers.

Starting with the domestic business:

As mentioned in our pervious call, our efforts are primarily directed towards adding more depth and width to our product portfolio. We had indicated that we would be launching 11 to 12 new products over the coming years of which 5 would be launched this year. I am pleased to report that we have received registration certificate for two products which are being launched in the current season and while it is too early to comment on the success of the products all we can say is that the field demos that we had done had a very positive response from the farmers and the trade partners so we are extremely optimistic about the good performance of these two new launches.

Moving on to our seeds business:

The delayed monsoon has certainly and clearly had an impact on acreages and sales sowing has as a result being pushed back. Rain though has picked up in July making up at least for part of the delayed start and the delayed start could result in a crop shift. We are seeing this trends for millet and short duration paddy for which our business is well placed. None the less our performance for the business was satisfactory under the given environment. Our strong presence in the Kharif crops especially paddy and millet has helped drive the performance for the quarter. We have taken several internal initiatives towards building our relationship with distributors and I am happy to see these showing results. We are now working towards building our presence in Rabi products, fruits and vegetables, hybrid maize so that our seeds portfolio becomes more balanced. These efforts will obviously take some time to fully fructify, but once achieved will help making the portfolio more balance and ensure higher operating leverage in the seeds business.

As far as the international business is concerned:

The capacity expansion of the first phase of Metribuzin which was around 500 ton per annum has been completed and the plant has been commissioned and production started. The second phase comprising an additional 500 tons per annum is progressing as per schedule and should be completed and operational by December end. Overall Metribuzin capacity will increase to 2,000 tons per annum once we are through with the CAPEX. On Pendimethalin which is the other big export product for us, we are experiencing over supply in the market and expect some softness over the next quarter and on Metribuzin by the time we are 2,000 tons per annum we will be about 15% of the global Metribuzin market. We have specifically wanted to target these molecules which are poised to grow and where we have a good leadership position.

Moving into contract manufacturing portfolio:

We presently manufacture two molecules namely Metconazole and PEKK. While our recent efforts towards adding to the business portfolio have not progressed as per the plan. We are reaching out to more customers to build new partnerships by leveraging our process and formulation development track record and use our lower cost manufacturing advantage. We are hopeful that such action will yield us desired results in time. Further our CAPEX plan for expanding a formulation capacity at Dahej chemical zone is well underway and expected to be operational by next Kharif season.

Lastly, we are undertaking steps towards reviewing our dealer network and increasing the touch points. Our revised trade terms with our distributors partners has been well received and we will see it play out during the current crop season.

Before I hand over to Ashish for taking us through the financial results, I would just like to reiterate the transformation process is shaping up well. We are undertaking requisite steps in the form of capacity addition, strengthening our product portfolio and increasing our dealer network. We are confident that over time these actions will deliver robust business performance in growth. Let me now hand over to Ashish who will run us through the quarterly performance.

Ashish Mehta: Thanks, Sanjiv and I welcome everybody to this Earnings Call of Rallis for Q1 FY20.

As you all know the top line grew by 8.8% to Rs.623 crore against Rs.533 crore of previous year. Primarily the growth was driven by 12% growth in the international business and also to the seed business. Domestic business remained almost soft reflecting the prevailing challenges. EBITDA for the quarter was almost Rs.95 crore against Rs.83 crore of last year showing an increase of 14% and PAT for the quarter grew by 24% at Rs.67.5 crore. There were few questions which were in the minds of investors in terms of the revenue growth in the seed business Metahelix and I would like to clarify before I proceed to the other section. While it is a very easy to subtract the consolidated numbers from the standalone and then arrive at the Metahelix seed number. There is always an adjustment for inter business, inter segment revenue like in the previous year there were certain sales which Metahelix did to Rallis and Rallis then finally sold the to its channel partners . The amount so purchased from Metahelix gets eliminated while consolidating the accounts apart from any profit adjustments due to inventories remaining out of the said purchases So, if you subtract the numbers it gives you an 18% growth, but actually if you see the Metahelix standalone numbers which is after the limited review it gives a 3% growth, and hence the 2.6% growth was mentioned in the investor presentation which we uploaded. I hope I have clarified this point. I In terms of working capital given the recent changes we made in the trade policy we did see pressure on the working capital as a result of which the interest cost has gone up little bit, but we are very sure that going forward the working capital will be well under control I would like to also clarify the point on the applicable Tax rate for Metahelix We have considered a part of the income in Metahelix as agriculture income and hence you see dip in the tax rate

We are confident that whatever income we are considering as an agriculture income is in line with the requirement of the tax authority and going forward, we will continue to do so. Regarding the outlook for the current quarter the successful launch of the two new products coupled with channel policies expected to help including the ITI, the pressure on the major RM continuous to be there and we feel that will be there. The high inventories in Pendimethalin and the pricing pressure will be felt in the international market may impact the sales. Liquidation of the seeds due to late arrival of monsoon could be a challenge and poor monsoon affecting the sowing sentiment in market place portends challenges for Q2.

This concludes the remark what I had to make on the financials and we are now ready for the questions.

Moderator: Thank you. The first question is from the line of Prashant Biyani from Prabhudas Lilladher.

Prashant Biyani: Sir the 2.6% growth in Metahelix revenue so net-net the balance portion would be intersegment sales to the standalone entity?

Ashish Mehta: There is no internal segment sales in the current year whatever sales have happened by Metahelix is directly to the trade which unlike in last quarter of previous year we had some sales.

Prashant Biyani: Sir the new channel polices have been well accepted so despite that we have been able to grow our standalone domestic business has declined by 2% if I am not wrong, so what would be the reason for that?

Sanjiv Lal: The way I would look at it is that Q1 as far as crop protection business is concerned is largely a placement season the consumption really happens during Q2 and we will just have to be a little patient to see how things are going to play out in terms of the Kharif season. So, I would be watchful and look at Q2 performance.

Prashant Biyani: And how much was the volume growth or decline in standalone CP business?

Ashish Mehta: As we said in the domestic it was a soft performance there was not any volume growth if I were to dissect the product wise there would be some volume growth in a particular variety of a brand, but overall it is almost same as last year. As Mr. Sanjiv said that this is just a placement largely, we need to see how the Q2 pans out.

Prashant Biyani: So, even with channel we are not keeping high inventory even during placement so that when the liquidation picks up we will be able to ship materials to the channels in a time bound manner.

Sanjiv Lal: I will just like to add one dimension to this you know because of the delayed season what happens in the trade is that the trade is sitting on the seeds inventories and unless the seed inventory moves out as sales to the farmers for the cropping season they really do not have too much space available for them to receive too many agro chemicals because in terms of sequencing it is a seeds which need to go off from the trade first then followed by the fertilizers and then by the crop protection. So, for those distributors who are dealing largely in seeds and crop protection their shelf space becomes a challenge for them to be able to accept crop protection chemicals while they are still holding inventory of seeds. So, there has been some delay in the off take of seeds which I think is an outcome of the delayed season monsoon impact. I would request my colleague Nagarajan to weigh in on it.

S. Nagarajan: I think the response that we have received from the channel with respect to our trade policy modification has been quite encouraging. In terms of material movement into the trade we are being careful we do not want to end up with over stuffing, we are also trying to sort of make sure that it is close to the season as much as possible. So, I guess it is something that we will have to really look in Q2 like was mentioned in the agro chemical side because that is actually more reflective of the likely liquidation.

Prashant Biyani: Also Sir, our Gross margins have also contracted by around 150 basis points even though in the base quarter we had already seen 700 basis point declines on the gross margin plus we are also having benefit of raw material prices declining off late, so can you explain this gross margin contraction on a consolidated basis?

Ashish Mehta: See the larger raw materials being imported the price is on an upwards trend it has not shown any downward trend especially if you take the price of the DM Pack the prices have been still going up. It has not been possible for us to pass on the entire cost to the trade. Secondly there has been a pressure on the Pendimethalin price both in the domestic as well as in the international market. So, these two factors are there which has impacted the margins in a manner which is around 1.5%, but we have taken some price increase in the quarter in some cases wherever it was possible, but I think more so will be felt out in the Quarter 2 as we have progress in the season.

Moderator: The next question is from the line of Rahul Veera from Abakkus Asset Manager. Please go ahead.

Rahul Veera: Sir just wanted to understand the operating expenses because of the IndAS how much has that changed from Rs.99 crore we come down to Rs.93 crore at a console level, so what will be the impact of operating leases?

Ashish Mehta: Due to implantation of lease accounting as per IND AS 116 certain amount paid as lease rentals for godown /vehicles now gets accounting under depreciation/amortization . Effectively there is no impact on bottom line as earlier these expenses were accounted classified under "Other expenses" So, on the standalone is around about Rs.2.5 crore of difference

Rahul Veera: Sir what are the elements of other expenses have sharply come off was there I mean reduction in large one-off lower expenses?

Ashish Mehta: I mean while it is looking lower it is not that we have saved on anything as Mr. Sanjiv said in his opening remarks that a couple of products which are being launched in this month actually we have planned for the expenses based on the expected registration certificate earlier in the first quarter, but since it happened in the beginning of the second quarter the related sales promotion and introduction of new products expenses will happen in the second quarter that is only a shift.

Moderator: The next question is from the line of Nirbhay Mahawar from N Square Capital. .

Nirbhay Mahawar: Just wanted to get some sense on how is the paddy seeds sales moved in this quarter because 83% of your sales is you are mentioning is coming from cotton & Maize YoY if there has been substantial decline in this quarter, is it because of the season postponement?

S. Nagarajan: I should clarify that cotton and maize roughly contributes about it is not 83% that is not a correct number so kindly ignore that. It is closer to 40% to 45%. Also, just wanted to correct that the growth in the seed business was from Bajra, maize and cotton & not paddy, maize and cotton we apologize for error that in the presentation.

Nirbhay Mahawar: So, you have mentioned that you have sold more than a million packets in cotton so what was this number YoY?

S. Nagarajan: In terms of cotton growth in revenues has actually come more from realization changes. We have to still wait for the liquidation to just emerge to really for compute the YoY growth in the first quarter we normally take a provision based on our accounting policy. We will really have the YoY volume growth closer I mean at the end of Q2, but directionally it is more of realization improvement that is our perception today more than the significant volume improvement.

Moderator: The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.

Sudarshan Padmanabhan: What I would like to understand is recently there have been a few cautionary statements from BASF and other global players pointing towards lower demand issue such as deluge in the US, dry weather in Europe. So, while you had talked about a price related issues in Pendimethalin and other do you think there is a risk of volumes and if you can give something like a short term and a fairly a little bit more of a longer term environment I mean how would you think that things are going to pan out on the international side?

Sanjiv Lal: Well I have seen the way to look at it we are working on a portfolio of products so there will be periods of time when one products will not do as well as it had done in the past and even in Q1 despite Pendi not really performing in terms of our expectation it is the other products which has helped to support the 12% growth in our international business that we have seen. So, we will be looking at the portfolio of products which we are working with as well as the newer registrations that we have been able to get during the course of the last financial year and also we are continuously working on getting additional registrations for different geographies as well especially in South East Asia and Africa so that we are further de-risking our international business portfolio.

Sudarshan Padmanabhan: Would there be any specific crop that you would be targeting or what would be the go to strategy would it be as you mentioned a bouquet of products and bouquet of crops and it would be across various categories like herbicides, fungicides and insecticides so broadly what would be the go to strategy here sir?

Sanjiv Lal: I think we are very strong in the herbicides category and that continues to be a leading product category and we also building on the other molecules. Acephate for us is also very important insecticide that we export. So, we have been constantly looking at expanding each of these categories largely in the insecticide and the herbicide category.

Sudarshan Padmanabhan: And any specific number do we have in terms of broadening the international business base in terms of product registration say on an annual basis how many new products do we intend to increase?

Sanjiv Lal: Last year we got additional 11 registrations and the team is currently working on a fairly ambitious target of about submission of about 60 dossiers. So, there is some good work which is currently underway for expanding our reach as well as the portfolio of products that we are offering.

Moderator: The next question is from the line of Varshit Shah from Emkay Global.

Varshit Shah: My question is again related to the previous one so regarding the cautionary statements given by BSAF and other players, do you see any immediate threat in the current portfolio or some of the volumes which you are expecting say in Q2 have you got any such statements from your customers in the current portfolio?

Sanjiv Lal: No, I do not think there is any major concern as far as our key customers and our portfolio is concerned except this issue about high inventory of this particular herbicide Pendimethalin that we have experienced in Q1 and that should correct it in the next 2 quarters.

Varshit Shah: Any sir any color on raw material I mean the input prices hardening so is the market stabilizing or is still unpredictable as of now?

Sanjiv Lal: No I think our own assessment is that it continuous to be little uncertain in terms of which direction the prices will move because some event or the other in China is causing some bit of anxiety and our task is really to make sure that we are able to navigate through all this. For example recently there was this incident at one of the yellow phosphorus factories in China and the way things work in that country is a complete clamp down in yellow phosphorus. So, that itself would have a chain effect on the phosphorous chemistry related products, but as of now we are not directly impacted by that, we have well covered with our raw materials for Q2.

Moderator: The next question is from Nitin Agarwal from IDFC. .

Nitin Agarwal: Sir we are in the mid of July now what is your sense on how the monsoon has been so far and the kind of implication it has for I mean it is slightly early days for the broadly for the agricultural season in this year the Kharif season for the market?

Sanjiv Lal: I think the first two weeks of July seems to have improved the situation. Of course we landed up with some flooding in some parts of the country that apart there has been some catch up which has happened. So, we are seeing some reasonable traction in the market.

Nitin Agarwal: So, on related part in your opening comments you mentioned that you expect at least in the seed side some crop rotation, what kind of rotation do you see happening amongst crops because of this delay in the monsoons?

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S. Nagarajan: I think there are different kinds of crop shifts that we have witnessing in different parts of the country: for example in Maharashtra we are finding that Bajra is actually taking up, maize is actually not doing as much as we thought it would do. If you look at the crop acreages which is updated by the government even that kind of indicates similar kinds of trends. If you compare this year's area sown versus last year area sown in the case of Bajra it is actually very marginal drops 11.7 lakh hectares versus 12.5 lakh hectares last year. On the other hand, in the case of maize there is more substantial drop which is 21 lakh hectares this year versus 30 lakh hectares last year. So, we are noticing that in Maharashtra. In Gujarat again in Saurashtra area we are finding that because of rain got bit delayed we are finding that the window that is available for the farmers is compressing fast. So, maybe groundnut and cotton which are important crops from our crop protection chemicals point of view and cotton from a seeds point of view we are actually looking somewhat dimmer prospects, but on the other hand we are also finding in certain markets short duration hybrid on seeds are picking up in the case of paddy because of the compression of the window and the farmers want to complete their cultivation quite fast and we do have a product which kind of plays to that kind of requirement. So, it actually differs in different micro markets. Some of them are favorable from our portfolio point of view and some of them are not so favorable and our focus is trying to sort of take advantage of the ones which are favorable in terms of trends.

Nitin Agarwal: On a broader basis we have seen in decline in both cotton and maize in terms acreages is there a fair comment?

S. Nagarajan: We would expect cotton to decline in couple of states although in certain states it seems to be looking up. At the aggregate all India level it may be perhaps flat to a marginal growth. In the case of maize, the commodity prices of maize are prevailing very high. Our going in position was that it will be very favorable for maize acreages. At the moment it is actually trending a bit lower.

Nitin Agarwal: Sir on the export side, the CAPEX plan that you have highlighted for Rs.800-odd crore over the next four to five years so how much is essentially going to be driven by our newer product launches and probably how much it is probably largely function of increasing our capabilities in the current set of products I mean is there a way to segregate that?

Sanjiv Lal: See actually some part of the commitment which we have already started putting on the ground is related to expanding our formulation capacity and we have also included in that Rs.800 odd crore some molecules where we will be doing some backward integration to derisk the supplies that we are currently needing to import and there is also some work which we are doing on new active ingredients and that will play out over the next couple of months we will have better clarity on the investment that we will be doing on the active ingredient side.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Manager.

Pritesh Chheda: Sir on the capacity expansion that we are done, we have added on 1,000 tons of Metribuzin, so in the past call you had said that it is a Rs.100 crore CAPEX which will do 2x asset turn which is about Rs.200 crore revenue I just wanted to know the time line or how many years will it take for you to reach full capacity utilization in this product line?

Ashish Mehta: First of all 1,000 tons is not going to come immediately. What we had said there are two phases. One phase of 500 tons will get over by June which has happened. The second phase of 500 tons expansion we have said that it will get completed by end of December and if I take the full 1,000 tons the Rs.200 crore you can essentially see in the next year itself that is the potential of the 1,000 tons additional would give that 2x revenue.

Pritesh Chheda: So, in FY21 you will see full utilization of this Metribuzin capacity?

Ashish Mehta: Naturally, because the second phase of completion will happen only in December. So, in the remaining fourth quarter of the current financial year you cannot have the full capacity utilization.

Pritesh Chheda: And do you have any capacity in the other product line Pendimethalin and there also you are constraint by capacity?

Sanjiv Lal: No Pendimethalin we have got adequate capacity so there is no immediate urgency there.

Moderator: The next question is from the line of Abhijit Akela from IIFL.

Abhijit Akela: Would it be possible to just break out the export revenue for the quarter?

Ashish Mehta: Around 39% is the revenue of the international business in the standalone results. I think we have mentioned there in that it is there from 36% to 39% that is what we had mentioned there.

Abhijit Akela: I just wanted to understand this change in accounting for Metahelix, so does that mean that last year in the standalone numbers reflected some sales of seeds which are not there this year?

Ashish Mehta: Yeah it is not a change of accounting. I think if I can correct it change in accounting is the implementation of 116 lease accounting that is different than the intersegment revenue like last year in the first quarter Metahelix had sold from seeds to Rallis and Rallis also sold those seeds finally to its other customers. The same thing has not happened in the current quarter. The entire sales from Metahelix is to the channel partners and nothing has been sold to Rallis, there is no change in accounting.

Abhijit Akela: Ok, so, despite that shift of seed revenue away from the standalone business the standalone revenues have grown by about Rs.11 crore year-on-year, is that coming entirely from the international business itself?

Ashish Mehta: Yeah that is what we said international business for the current quarter has grown by 12% and domestic has been soft that is what we have said in the presentation. So, the revenue growth has come about from the international market.

Abhijit Akela: On the pharma molecule that you are producing would it be just possible to give us a sense of how much the revenues were last year which are now going to be discontinued?

Ashish Mehta: Same as last year Abhijit , what we had said was that we will continue with the raw materials what we have and produce that and then stop the production. So, hopefully by end of August twe should be consuming the RM and then sell it off. It is a very small numbers and both are comparable. There is nothing significant rise compared to previous year and this year both are almost at same level.

Abhijit Akela: And lastly on the tax rate sir you mentioned that some portion of Metahelix income is being recognized as agricultural in nature, could we assume that this 20% kind of tax rate is a decent number to work with going forward?

Ashish Mehta: For Metahelix around 21 odd percent would be there I mean that is the way we have worked out. See largely it depends on the category of materials what we sell. If it is a traded material it cannot be considered as an agricultural income whatever agricultural income we are considering is relating to the manufacturing and the production of the seeds done from the in-house working with the farmers and taking it back, but it will be a fair thing to assume in the tax rate would be at that level.

Moderator: The next question is from the line of Balaji from Murugappa Group.

Balaji: The question is that the growing awareness around the world regarding the chemical residues and there is a lot of regulations in European regions regarding the agrochemicals, so is the company considering a shift towards bio pesticide or a natural pesticide?

Sanjiv Lal: I think sometimes this information can also be a little misleading. See all the agrochemicals, all the big players, Rallis and all the other large crop protection chemical companies all of us go through this whole registration process where even the MRLs have to be approved and the chemicals which are being sold by all the recognized players have gone through the process of getting the residue levels approved before it is being sold. So, I think the issue is not the way it is currently been portrayed. Of course, there are certain chemicals which are available which form part of what we may call not the regulated chemicals which the farmers end up using, we will end up with those kinds of problems.

Balaji: So, company is not seeing any shift towards natural pesticides that even government is promoting to use lesser chemical pesticides in the farming?

Sanjiv Lal: Yeah, I mean that certainly a good direction to take, but I think on an overall basis if you see the crop protection chemical consumption in India versus other countries ours is still very-very small. Over-usage of chemicals I think is not the case at all. Tere is a huge opportunity because crop damage due to pests still constitutes about 25% of what is being produced.

Moderator: The next question is from the line of Levin Shah from Valuequest Research. **Levin Shah:** My question is on this metribuzin so overall if we see how is the market growth into that product?

Sanjiv Lal: Well actually since we are seeing a good growth that is the reason why we had put in capital on the ground to expand the capacity and we have also been working on getting our own registrations for metribuzin. So, some part of it is through the alliance-based sales that we do and some of them are registration-based sales that we are also expanding. So, we see a good opportunity for this particular herbicides and that is why we had committed capital for it.

Levin Shah: And like you said that you are working on lot of other molecules in the international market, so what are the kind of products that we will be launching maybe with this year and next two to three years?

Sanjiv Lal: So, I think we will have a better fix on it towards end of Q3 as our teams are still working on it. So, once we have the technology transfer documents in place between our research station and our manufacturing teams, we will be in a better position to share further information as to what are these chemicals that we will be going forward with.

Moderator: The next question is from the line of Nihal Jham from Edelweiss Securities.

Nihal Jham: Just continuing on the international business after the metribuzin expansion of 500 tons which is going to be completed in December of this year which is the next product that we are targeting, do we have a blue print of that already in place?

Sanjiv Lal: Yeah there are already some existing products of ours which have been doing well and small capital investments are being done which are basically to expand our Hexaconazole capacity and Kresoxim-Methyl capacity so these smaller investments are being done. These molecules are also doing very well.

Nihal Jham: So, if I could just get a sense of what is the quantum of these investments and by when do we expect these plants also or these investments also to be commercialized?

Ashish Mehta: Nehal as we had said that overall there is a strategy of investing Rs.800 crore. We also said that in the current year we will be roughly spending around Rs.200 crore and Board had already approved an investment of Rs.100 crore in the fourth quarter which is basically developing the Dahej Chemicals Zone, land filling, boundary wall and the setting of the formulation and then the Rs.200 crore also includes backward integration of two of our major molecules. So, we see the work to start from the third quarter of this financial year and get completed in next four quarters at least. We have a line of sight for these investments Mr. Sanjiv said that once the transfer of technology happens and reach to the manufacturing team we will get more clarity on the quantum of investment, but we know that overall this would be the investment in next three to five years.

Nihal Jham: Sir just one last question on the raw material sides so we do see that over the last two years we have seen 700, 800 bps reduction in our gross margin in the standalone business, so is that you would say totally attributable to the increase in the technical prices which has been happening or you would say there has been a mix change also which has happened over the last two years?

Sanjiv Lal: There is a product mix impact also. Apart from that I think there is also some amount of pricing pressure which is coming from the competitive activity in the market. Q4 saw a lot of carryover of a lot of stocks so all of that is there in the market and also adding to the pricing pressures.

Nihal Jham: I am asking just because in case say there are further increases as you said giving the example of the yellow phosphorous scale so there could be a potential that margins could be under pressure further going forward too?

Sanjiv Lal: Yeah, those possibilities are clearly there so we need to deal with that in terms of one is of course trying to buy it to the right price and there is also a number of projects which are running internally on improving our cost profile both on the fixed cost as well as on the variable cost side.

Moderator: The next question is from the line of Somaiah V from Spark Capital.

Somaiah **V:** I understand the metahelix I mean YoY the way things have been sold to Rallis and then being sold outside do we have on like-for-like growth in Metahelix business on a YoY basis?

Ashish Mehta: Yeah that is what we said that the growth in Metahelix is only around 3%.

Somaiah **V:** On a comparable basis is 2.6%?

Ashish Mehta: See, instead of selling to Rallis in the previous quarter of Q1 which Rallis sold and then recognized it as its revenue. This year the sales has happened directly to the channel partners and nothing into Rallis and Rallis does not have any seed sales in the current quarter.

Somaiah **V:** And second thing in terms of international I mean we saw that we have taken price hikes on the domestic front so on the 12% growth can we have a breakup of the volume and price growth directionally on the international front?

Ashish Mehta: It is a mix of both because there are so many technical we sell in the international market. So, like we said there was a pressure on the Pendi tech so we could not take any price increase over there or the volume increase, but then there was a good growth in the Metribuzin both in terms of value as well as the quantity. Acephate also grew in volume term so it is a mix and match for the three or four molecule what we do.

Somaiah **V:** In terms of the geographies on the international front so probably excluding CRAMs business which should be the other key geographies for us on the international front?

Sanjiv Lal: So, our contract manufacturing is only two items. The rest of it is the technicals that we make both for the domestic market as well as for the international market. So, we are still on a look out for the third and the fourth contract manufacturing molecule so we are working on that.

Somaiah **V**: In terms of geographical reach out I mean in US currently see Midwest flooding is impacting sales out there, so in terms for us whichever would be the key reason to watch out for in terms of internationals?

Sanjiv Lal: We are also focusing on getting additional registrations for Africa and South East Asia I had mentioned about 60 dossiers we are planning to submit during the course of the year. I would say about 75% of these dossiers are related with Africa and South East Asia. So, this will also help us to derisk our portfolio so anything happening in America we at least have alternate markets.

Moderator: The next question is from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah: Couple of questions sir, firstly about this seed revenue so if we exclude around Rs.30-odd crore incremental I mean the seed revenue from the standalone sales in Q1 FY19, so your like-to-like standalone CP sales growth is around 15 percentage on YoY basis is that understanding correct?

Ashish Mehta: Like-to-like growth of domestic business you are saying.

Dhavan Shah: Yeah standalone crop protection. I mean 2.6 YoY growth in Metahelix so around Rs.30-odd crore could be the sales in Q1 FY19 from Rallis side on the standalone business.

Ashish Mehta: Dhavan let me clarify what Metahelix sold to us in Q1 FY19, see we also sold and in that quarter some of it; it was already appearing in the revenue. It is only an inter - company adjustment. So, there is no growth of Rs.30 crore that said.

Dhavan Shah But can you share the breakup I mean the Q1 FY19 domestic standalone revenue I mean domestic revenue standalone is Rs.193 crore and the international revenue in Q1 FY19 was around Rs.126 crore is that correct?

Ashish Mehta: Standalone is already given last year we did about Rs.352 crore.

Dhavan Shah: And can you share the CRAMs revenue if possible, for this quarter and the Q1 FY19?

Ashish Mehta: On the volume there has been a growth in the CRAMs compared to last year. This is just because of the shifting of the orders which is given. So, overall if you take for the whole year as we get along it will be same as last year, but it only a shift in one quarter to another. This quarter it shows more sales compared to the previous quarter .

Moderator: The next question is from the line of Prashant Biyani from Prabhudas Lilladher. .

Prashant Biyani: Sir this Rs.140 crore of backward integration CAPEX will be entirely invested in FY20 right?

Ashish Mehta: Yeah, the work will start in FY20 and will get completed t get completed in FY21 it is a big project.

Prashant Biyani: And total CAPEX for FY20 will be how much?

Ashish Mehta: That is what we said that we have taken a plan of see there was a Rs.100 crore approvals in the last quarter which is under way there would be majority of the amount will be spent in the current year. Secondly there are Rs.200 crore of another CAPEX which is there will get partly spent in this financial year and majority of that amount will get spent in a next year as we progress.

Prashant Biyani: So, around Rs.150 crore to Rs.200 crore will be in FY20?

Ashish Mehta: Yeah , we will have to see the progress how it happens and all.

Prashant Biyani: Also, just wanted to check how much would be the depreciation related to the incremental capacity.

Ashish Mehta: We will not be able to make out Prashant from this one because cumulative figures of all the assets which are getting depreciated so it will be difficult to say. Even if it is capitalized in June the depreciation would be very marginal because it will be from the date of capitalization to 30th June so it will be only in days you will not get an exact picture on that.

Moderator: The next question is from the line of Pradeep Chaudhary from Saamarthya Capital.

Pradeep Chaudhary: Sir on the Metribuzin side I just wanted some confirmation the presentation talks about the additional 500 metric ton capacity coming by December 2020, is that the correct timeline written about?

Sanjiv Lal: Yes absolutely 500 already done in June and another 500 by end December 2019.

Pradeep Chaudhary Could you give some color on the product concentration on the exports in international side of the business I mean the top two, three, five products what percentage of the international business do they contribute?

Ashish Mehta: See in the international business for the B2B the major molecules are Acephate, Hexaconazole, Pendimethalin and Metribuzin these are the four technical which we sell I mean I cannot give a breakup of each molecule towards the total sales, but overall there is a breakup between the B2B sales and the contract manufacturing.

Pradeep Chaudhary: What is that breakup?

Ashish Mehta: Around 60%, 65% should be B2B and balance should be contract manufacturing, but again it depends on the orders what we receive for the contract manufacturing. For a whole year it will be an x amount, but it depends on which quarter the shipment happens. So, from one quarter to another quarter it may not be a comparable thing. At the end of the year you will get a better picture like if you compare Q1 sales of contract manufacturing so it may not give you a correct sense that is what I am saying.

Pradeep Chaudhary: And just again on the Metribuzin side just want to confirm that you expect the additional capacities to be fully-utilized by next financial year?

Ashish Mehta: Yeah FY21 should see the full year of capacity.

Pradeep Chaudhary: Because I was looking at next figures that the molecule is around $200 million which is around Rs.1,400 crore and we are at 1,000 tons capacity right now.

Ashish Mehta: Right now, 1,500 because we have completed first phase of the expansion.

Pradeep Chaudhary: The current 1000 tons is giving us Rs.150 crore or Rs.200-odd crore turnover is that correct?

Sanjiv Lal: Some of the Metribuzin is for the domestic market as well so it is not entirely 1000 tons of export.

Pradeep Chaudhary: On the innovation turnover index that you talk about in the annual report it says it is 10% as of now; do you have any internal target of where this number could move in years to come?

Sanjiv Lal: So, as we had said our focus is on getting newer products to the farmers and this year we are looking at 5 and at least 2 will come in every year. So, this should certainly help in improving the ITI which has been at around 10% as you rightly pointed out. So, we expect these figures to go up to a time and some of the newer launches should start kicking in by next Kharif.

Pradeep Chaudhary: And what is the exact definition of the ITI as per you?

Sanjiv Lal: This is the turnover new product mix in the four years period.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Sanjiv Lal: So, just to conclude while Q1 has been largely in line with our expectation despite the kind of situation that we have been seeing playing out on the domestic monsoon side. We are optimistic about the play out of all the things and activities that the team is currently focused on in terms of the domestic market demand generation activities. The placement activities have gone well so demand generation activities are ongoing in the field. We have got some excitement with two product launches which we will be doing in the coming week in our two locations and it will be further supplemented by launch of the same two products in other markets as well. So, we are looking forward to a very exciting Q2 with support of our trade partners and also with some support of the monsoons. Internationally, we are seeing some headwinds, but I think they are not something that is unsurmountable. We have got new registrations in place which will be leveraging as well as looking at alternate markets as a further de-risking to our international business.