Rallis India Limited – 25.01.2018

Transcript

- **MODERATOR**

- Ladies and gentlemen good day and welcome to the Rallis India Q3 FY18 Earnings Conference Call hosted by Prabhudas Lilladher Private 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sreesankar from Prabhudas Lilladher. Thank you and over to you sir.

- **MR. SREESANKAR – PRABHUDAS LILLADHER PVT LTD**

- Thank you Lisa. On behalf of Prabhudas Lilladher I have great pleasure in inviting all of you to the third quarter FY18 result conference call of Rallis India. Rallis India is represented in this call by Mr. Ashish Mehta who is a Chief Financial Officer, and Mr. K.R. Venkatadri the Chief Operating Officer. Over to you Mr. Ashish and Venkatadri please.

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Thank you Sreeshankar and good afternoon to all my friends who have joined this conference call. And I welcome you all for the discussion of the Q3 FY18 financial results of Rallis India. I will take about 10-15 minutes to cover the financial results both consolidated as well as standalone. Now on the face of it the consolidated results showed a revenue growth of roughly 12% and on a standalone it was around 9%. If you were to take the impact of the excise duty out of the financial results for a like to like comparison, the overall growth at a consolidated level in revenue was around 19%. And for the standalone it was around 16.5%.

- While we grew largely in volumes in standalone results, the results were not reflecting in the bottom line as well as in the EBIDTA margins. There has been a pressure in the margins and I will explain why these numbers look like what was appearing in the results. The impact of the rainfall which was extended in the first week of October where we thought the high consumption areas of Karnataka, Tamil Nadu will have lot of consumption of our main paddy crop materials, it led to a higher sales returns and that impacted the financials. Whatever estimates were made, the returns were a little higher than that. And the company had to take back the materials and it impacted the results also.

- The second which is the most important factor which has affected the consumption is the increasing price of raw materials, especially the imported raw materials coming in from China. As everybody knows there has been an upward trend in some of the major raw materials, the effect of which was felt in the consumption. The trade was not willing to take the price increase. And at the same time the pressure was there on who would take the high raw material cost, both coming from China as well as local, some of the local items which goes into our main technical production, we saw an unprecedented rise in the price. While we see for the next 3 to 4 months the trend to remain same as far as the imports are concerned, we see a gradual reduction in the prices of some of the raw materials which are bought locally. And we are sure that whatever actions at least Rallis has taken for selective price increase at the end of December and beginning January, we are confident that the margins would improve. The price corrections will happen but it will happen in a gradual manner. So this is another explanation to the low margins which we achieved in the quarter 3.

- Now I will go to the domestic business. Domestic business has seen a very healthy growth, largely through volumes. I will not go into the specifics of the product but this growth has come about because of the efforts which the management and the operating team has taken for the last 2 years or so in increasing the channel network. There was a demand from the trade to increase the credit facilities which we have already done since last year. And also increasing our business relationship with some of our alliance partners who helped us in introducing some very good products. All these 3 to 4 factors propelled with our focused attention on RSK, Rallis Samrudh Krishi, which has really led us to this volume growth. I am happy to say that over last 4 quarters we have been gradually growing in our volume while it may not be reflective as much in the bottom line but the fact of the matter is we are increasing our volume and also increasing our market share.

- I will come to the contract manufacturing. At the start of the year our MD & CEO Mr. Shankar had said that the board has given us an approval for spending Rs. 50 crores for our new investments for manufacture of pharma intermediates. We are happy to say that the first phase of investments of roughly Rs. 22 crores is over. The production has started. But as everybody would know that in the initial stage there are hiccups to get to the full capacity. There are challenges in optimising cost in the initial stage. This also impacted a little on the financials in the third quarter. We are happy to say in the current quarter we would achieve the capacity production. We will also see revenues flowing regularly henceforth as we have orders on hand. We will see the full impact of the investments what we have made in the first phase in FY19.

- That is to cover on the contract manufacturing. Coming to the international business where we have two legs, one is the B2B business and the other one is the existing contract manufacturing. We saw a huge growth in volume terms in our B2B business, and which is reflective of the fact that our plants are fully utilised. We did see competition being aggresive on pricing of some key molecules we were able to achieve a good, healthy volume growth in Q3.

- As far as the geo green business is concerned we had a good volume growth as the product has been well accepted in the market. And we see encouraging results coming in that area also.

- As far as Metahelix is concerned, Metahelix did take in a growth of some 6-7% in revenue but they were able to contain the losses as they had done in last year for the same period. They introduced 2 Rabi Maize and 1 Mustard Hybrid during the quarter. And while there was pressure in the commodity prices of cotton, maize and millet, they were able to contain the loss of last year and for the Q4 they expect to at least optimise on the cost and maximise the sales in the coming months.

- So this is largely on the domestic formulation business, international business, the new contract manufacturing on the pharma intermediate front. I explained to you why the EBIDTA margins were under pressure, and also talked about the geo green and all those things. And I am sure I will be able to answer some of the queries that you might have. And I will now leave it open for the questions and answers please.

- **MODERATOR**

- Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone wishing to ask a question you may please press * and 1 on your touch tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. Participants in order to ask a question you may please press * and 1.

- We will take the first question from the line of Pavan Kumar from Unifi Capital. Please go ahead.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Sir just wanted to understand the proportion of CRAMS revenue in the present quarter and once we see the optimum utilisation say in FY19, what can they scale up to?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Pavan we have already said that our strategy is to have our exports turnover in the ratio of one third to two thirds. So one third would be the total exports which will also include our B2B business, our existing contract manufacturing as well as the new contract manufacturing in the pharma intermediate. So that's the ratio we would be maintaining. It is not that we would strictly stick to this ratio but this is the direction we would like to go. So contract manufacturing revenues comes evenly throughout the period. So these percentage for the quarter would be almost same as what would be expecting at the year end.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Okay. And what is our expectation going forward in FY19 sir?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Expectation on?

- **PAVAN KUMAR – UNIFI CAPITAL**

- On the CRAM side?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Yeah as I said for the new contract manufacturing we will see the full revenue coming in FY19. So we expect it around Rs. 50-60 crores from this investment what we have made in the first phase.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Rs. 50 to 60 crores possible in FY19?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Correct. Because the investments what we made in the first phase got over somewhere around August end, September. Production is slowly inching to the capacity and by end Q4 FY 18 we should see full capacity production and hence we will see full revenue flowing in FY19.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Okay. And what was the quantum of investments sir if you can just please tell me.

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Quantum of investments in the manufacturing or as a whole or only specific to pharma? What is your question please?

- **PAVAN KUMAR – UNIFI CAPITAL**

- Quantum of investment in this new CRAMS facility whatever we are trying to get some Rs. 50-60 crores of revenue from FY19.

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Okay, as Mr. Shankar had said in the last April meeting when the year had ended, the board had given an approval of Rs. 50 crores of investments that was to happen in two phases, the first phase of investment is already over. We have spent around Rs. 22 crores already. And the balance will happen in the subsequent months. But this investment will give us Rs. 50 to 60 crores of revenue in FY19. Once the balance amount is also spent as and when the capex materialises that revenue will also start flowing in subsequently.

- **PAVAN KUMAR – UNIFI CAPITAL**

- And the broad asset turns for whatever the investments are going to be there in future on this side is going to be two times? Two and half times? Is that what we should assume?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- I think around 1.5 to 2 would be a reasonable estimate. Depends on the processes involved in the production and all that. But this is a reasonable estimate to me.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Okay. And lastly I wanted to understand if we are seeing any kind of change in the EBIDTA margins bouncing back because our performance has been decent.

But the EBIDTA margins have been under pressure I guess because of the pricing pressures. So what is the scenario we see going forward on that side?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- See as I said the price increase in raw materials cannot be absorbed immediately by the company. There has to be a price increase and passed on to the trade. While we have initiated a little bit in end of Q3 and also in Q4 beginning, we are confident that the margins would definitely improve in our Q4 as well. While the challenges will always be there how do you bridge the gap between the rising RM cost which is largely coming from China, and some of the raw materials which are procured locally where we are now seeing a little bit of a declining trend and consequent price increase to be passed on to trade, we do see this trend for the next 3 to 4 months.

- **PAVAN KUMAR – UNIFI CAPITAL**

- And can you just quantify sir what is the kind of price increase we have seen on the raw materialside in the last quarter?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- See there are a number of raw materials which come from China and the prices have gone up say by 10 to 15 to 20 to 25%. In case of local raw material the price has even almost doubled in some of the cases.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Okay.

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- Now it has seen a declining trend. So there are so many products, key raw materials which are consumed. It is difficult to give a sense of a range that way. So in some cases it has gone up by 15-20%, in some cases it has again gone up even more.

- **PAVAN KUMAR – UNIFI CAPITAL**

- And from our past experience how much time does it take for us to actually pass on these prices?

- **MR. ASHISH MEHTA – CFO, RALLIS INDIA**

- See the challenges over, there is also the shortage of supply that we expect. China condition is also very severe. Lots of units have also been asked to close down because of the environmental issues. So the challenge over there is what would be the time frame for the price to come down to a stable level vis-a-vis the supply. So if the supply constraints are there then one can expect price increase to go on.

- **PAVAN KUMAR – UNIFI CAPITAL**

- Okay fine sir I will get back in queue. Thanks.

- **MODERATOR**

- Thank you. We go ahead with the next question that is from the line of Sudarshan Padmanabhan from Sundaram Mutual Funds. Please go ahead.

- **SUDARSHAN PADMANABHAN – SUNDARAM MUTUAL FUNDS**

- Sir thank you for taking my question. Sir my question is around how we have seen a pretty sharp drop in the gross margins. So what I am trying to understand here is if I am correct to maintain something like around 80 to 100 days kind of an inventory, so I mean how – would that mean that we should be actually having some kind of an old cost inventory right? At least for predominant period of the full quarter.

- **Mr. Sudarshan Padmanabhan – Sundaram Mutual Fund**

- Would that mean that we should be having some kind of an old cost inventory, right, at least for predominant period of the full quarter. And you also mentioned in your initial remark about taking back some inventory from the channels. So if you can throw some light on this, sir, as to how the impact actually happened on the raw material side.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- So you want to know the impact on the gross margins, right?

- **Mr. Sudarshan Padmanabhan – Sundaram Mutual Fund**

- Yes, sir.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- See what I said can be summed up like this-, Every company, as per the Accounting Standards has to make an estimate of sales returns and account it in the financials of the reporting period. So if returns are more than what the company had estimated, it will have an an impact on financials, the returns came because of the reasons I explained. There were some high margin products which could not be liquidated for reasons explained earlier. There is also change in the product mix which happened and that also has had an impact on margins. Rising prices of some key Raw Material has impacted the margins and it is not correct to say that we are holding inventory for seven months, eight months or one year or like that. So all these factors as mentioned earlier have impacted the margins. As I said this are not a long term phenomenon and some corrections will happen as we go forward in Q4 and Q1 of the next year.

- **Mr. Sundarshan Padmanabhan – Sundaram Mutual Funds**

- So can you break up the margin impact between all these four items, sir.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- That detail would be not possible to give, but I gave you a large flavour, I mean all of them have an equal impact.

- **Mr. Sudarshan Padmanabhan – Sundaram Mutual Fund**

- So is it right to assume that even into the current quarter and more you will continue to have cost pressures I think.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- I did say that there would be challenge on the cost, the challenge would be also on how much bridging can be done, that also depends on what cost the raw materials are coming and how much is we are able to pass on to the trade. But we are confident that the price correction what we have done at the start of the quarter, at least we will see something better in the coming.

- **Mr. Sudarshan Padmanabhan – Sundaram Mutual Fund**

- How has the competition behaved in terms of pricing action?

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- I am sure competition has not been able to fasten the price. My I request Mr. Venkatadri to say something on this please.

- **Mr. K.R. Venkatadri – COO, Rallis India Limited**

- Good afternoon. As Ashish mentioned there has been a lot of pressure that has been there in the market on the pricing, and you will notice that as the season unfolds the consumption for the industry itself has not been at a very great level, whereas companies at the beginning of the year, started with the anticipation that this year it is going to be good after two bad monsoon years and hence everybody had planned for aggressive volumes. So most companies had stocks and that has actually created a lot of pressure at the channel level and because of which the pricing has not been increasing in all products. You will see that across competition as well, as and when you do your market check, it is not a phenomenon only with Rallis, it is a phenomenon with virtually the entire industry as such. And you will see that getting reflected in the collections of most companies as well. So that is another area which shows that the rural has not been able to pick up the increased prices.

- **Mr. Sudarshan Padmanabhan – Sundaram Mutual Funds**

- Thank you, sir.

- **Moderator**

- Thank you, we will take the next question from the line of Charulata Gaidhani from Dalal and Broacha, please go ahead.

- **Ms. Charulata Gaidhani – Dalal & Broacha**

- Hi, my question pertains to the sales returns, how much were the sales returns and how much is the normal.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- Ma'am, it is very difficult to predict the sales returns for any quarter by any company, even if you have the most scientific way of measuring it. Because sales generally is dependent on the monsoon, the spread of monsoon, the timing of monsoon, the pest attack, the intensity of the pest attack. It is very difficult to judge all these things and then come to a reasonable number and say that okay for this quarter I will take this number. It doesn't happen, it changes every year, every quarter on quarter. We have a methodology of accessing the market condition based on the inputs we get from our operating field colleagues. And to give a quantum I don't think it should be right on my part to give a quantum of returns. But all I said is there are factors which have impacted our margins and one of them was this, it equally had an impact on the financials. I also said that some of the higher margin products which were placed in the market for consumption had to come back, had to be taken back, so they also had an impact on that. I am sorry I am not able to give you a number, but this will give you a sense of how this happens and how the sales returns estimates take place.

- **Ms. Charulata Gaidhani – Dalal & Broacha**
- But when you sell, you sell through the distributors, right?
- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- Yes, we sell through our distributors.
- **Ms. Charulata Gaidhani – Dalal & Broacha**
- And then they in turn return it to you.
- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- The materials is sold to our distributor who in turn sells it to the retailer and finally it is sold to the farmer by the retailer. We do not have any direct dealing with the farmer, but we closely work with the farmers through our RSK initiative.
- **Ms. Charulata Gaidhani – Dalal & Broacha**
- So the farmer returns it to the retailer.
- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- The farmer does not return to the retailer I don't think there is a return, the return only happens from retailer, if he is not able to sell he will send it back.
- **Ms. Charulata Gaidhani – Dalal & Broacha**
- Okay.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- And just to add a point to give more clarity to your understanding, we do not leave materials that is not liquidated with the channel, we take it back and send this to another location where possibility of consumption is high.

Ms. Charulata Gaidhani – Dalal & Broacha

- Okay, thank you.

- **Moderator**

- Thank you. Before we take the next question we would like to remind our participants, that you may please press * and 1 to ask a question. The next question is from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

- **Mr. Keyur Pandya – Prabhudas Lilladher**

- Thank you for the opportunity. My question is regarding I mean can you throw some light on how the seed segment has performed and what is your outlook for the same. And secondly we generally generate physical cash and we have a good pile of cash after sale of our Turbhe land. So what is the plan for use of that cash?

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- Okay, first I will answer on the cash. Whatever amount we received against transfer of leasehold rights was partly distributed to the shareholders by way of a special dividend, some amount we have invested in our capex for new Contract Manufacturing in the pharma intermediates and the balance of Rs.80 to 100 crs have been parked for future requirement.

- And in Metahelix we have been doing well in the paddy and in fact there are two products, MC 13 and A36, they have been doing very well. Maize also performed well, better than the last year. Millet was at par as last year. And on cotton there were returns because of the Kharif season sales majority coming from one particular southern state of Tamil Nadu. So overall we have been doing well.

- **Mr. Keyur Pandya – Prabhudas Lilladher**

- But what was the, I mean is it the right way to derive Metahelix revenue as a difference between the consolidated number and standalone number.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- Largely it will give you an indication because it also includes performance of Zero Waste Agro Organics. But as I said in the beginning, revenue of Metahelix grew by about Rs. 5 crores over last year, but at EBITDA level it was almost same because of the fixed cost which is already there. So that's just the summary of performance of Metahelix.
- **Mr. Keyur Pandya – Prabhudas Lilladher**
- And the outlook for the, I mean, for the segment, when will we see the operating leverage in our margins matching with our peers as we have generally lower margins in seed.
- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- See, at a gross margin level Metahelix is about at the same level as that of competition, it is only at the EBITDA level that we need to catch up. And I am happy to say that Metahelix has been improving its EBITDA levels year on year. Last year it had almost touched double digits and I am sure going forward it will also further improve. The ratio of fixed cost to the sales will not be the same as we had in past. In the initial stage a lot of amount was spent on the field activities, building up the resources to cover various geographies. A lot of amount is also spent on R&D. As these activities will continue but it will not be as same, as the revenue, so definitely that will translate into EBITDA margin improvement.
- **Mr. Keyur Pandya – Prabhudas Lilladher**
- Thank you.
- **Moderator**
- Thank you. The next question is from the line of Amit Kadam from LIC Mutual Fund, please go ahead.
- **Mr. Amit Kadam – LIC Mutual Fund**
- Hi, sir, I have two questions. One is how the export market has behaved for us wherein like in domestic what we have seen the rising raw material and the channel was not ready to absorb the price. But in that case export, how the export has behaved? And what is the outlook on the export side? And second question is on the CRAMS, so can you elaborate on the what kind of project we are doing

in CRAMS, so is it all these novel molecules what we are tapping or it is just a contract manufacturing work we are doing for the already generic molecules.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- Amit, first let me answer your question on CRAMS, presently we are having CRAMS for two molecules separately and this has been there for a very long time. There is also CRAMS for, I would say it is contract manufacturing for the polymer division which we have been doing for almost two decades now. Recently started project which we have done in pharma which is the N minus 2 intermediate, the opportunity is huge and this is a small beginning we have made, most important fact is that our unit has been recognized under the GLP practice that is the most important thing. It is now only the scaling which is going to happen. And I have already explained to you about what investments we have made so far and how things are looking from Q4 onwards since the production has now stabilised. On the export side, other than the CRAMS, that is the B2B business, we have done really very well, as far as the volumes are concerned. There has been a price challenge from the competition especially from China, so couple of molecules face stiff competition in terms of prices. Exports to Brazil has also improved, but here again the Chinese factor has played its role. Overall in major technicals of pendimethalin, hexaconazole, metribuzin we have done very good in terms of volumes.

- **Mr. Amit Kadam – LIC Mutual Fund**

- And, sir, how is the outlook like how do you see though there is like price competition from China, how do you see in terms of the market developing or recovering especially in the LATHAMs because they have also suffered. The entire region has suffered in the last couple of years.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- The market as far as we are concerned, we will be focusing more on our two or three molecules i.e. the Hexaconazole, Pendimethalin and Metribuzin and all of them are showing promising demand over the next few years. And we have been also expanding our reach through registration, you know, because to sell technical you need to have a registration. That also gives you a visa to sell your products aboard. For us these 3 to 4 molecules are showing a good outlook. If Mr. Venkatadri would like to comment on this, please.

- **Mr. K. R. Venkatadri – COO, Rallis India Limited**

- We are very positive about the products that we are in and except may be one, I think all of the others we are seeing fundamental growth in the volumes and we are looking at it very positively because of that. Because in the countries where is it being used, there are certain shifts taking place, which are favouring our molecules.

- **Mr. Amit Kadam – LIC Mutual Fund**

- Okay, that's it. Thank you, sir.

- **Mr.K.R. Venkatadri – COO, Rallis India**

- Thank you, Amit.

- **Operator**

- Thank you. And the next question from the line of Basanth Patil from HDFC Securities. Please go ahead.

- **Mr. Basanth Patil – HDFC Securities**

- Hello, sir.

- **Mr. Basanth Patil – HDFC Securities**

- Thanks for taking question, sir. Sir, what percentage of raw material as a total raw material we import largely from China?

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- From 40-45% minimum.

- **Mr. Basanth Patil – HDFC Securities**

- Okay. 40 to 45% and the rest is procured through domestic market.

- **Mr. Ashish Mehta – CFO, Rallis India**

- Yes.

- **Mr. Basanth Patil – HDFC Securities**

- Sir, actually the raw material prices are significantly higher.

- **Operator**

- Sir, sorry to interrupt, Mr. Patil. Sir, we are not able to hear you.

- **Mr. Basanth Patil – HDFC Securities**

- Sir, compared to Chinese...

- **Operator**

- Sorry to interrupt sir, we are still not able to hear you.

- **Mr. Ashish Mehta – CFO, Rallis India**

- I can hear you, can you speak loudly, Basanth, please.

- **Mr. Basanth Patil – HDFC Securities**

- Yeah, yeah. Can you hear me now?

- **Mr. Ashish Mehta – CFO, Rallis India**

- Yes, it's clear.

- **Mr. Basanth Patil – HDFC Securities**

- Sir, our procurement is largely from the domestic market. See, actually the prices have significantly gone up compared to Chinese raw material. In domestic market it has gone up significantly. So, going ahead means pressure will continue at least for next 3-4 quarters, means to say is that the correct way of understanding.

- **Mr. Ashish Mehta – CFO, Rallies India**

- No, Basanth, as I explained in the beginning, the raw material prices coming from China has been a showing upward trend and it is continuing to show that.

- **Mr. Basanth Patil – HDFC Securities**

- Okay.

- **Mr. Ashish Mehta – CFO, Rallies India**

- Whereas the upward trend which was witnessed in the domestic markets that has, some of these materials the prices have now started coming down. It went up significantly high and it has started coming down. We are seeing a downward trend but it's not come to that level, which was there say about 4 to 5 months back.

- **Mr. Basanth Patil – HDFC Securities**
- Okay.
- **Mr. Ashish Mehta – CFO, Rallies India**
- But the trend is coming down.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, the trend is coming down.
- **Mr. Ashish Mehta – CFO, Rallies India**
- Yes.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, okay. And Sir, the next question. What we have indicated this CSM revenues, what we are expecting around Rs. 50 to 60 crores in next year, FY'19, that is largely from the Pharma CSM, what we are.
- **Mr. Ashish Mehta – CFO, Rallies India**
- Yes.
- **Mr. Basanth Patil – HDFC Securities**
- Makes up to 25 crores. For that kind of capex only for that revenues, what you are talking**.**
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- No, no, come again on that capex, I couldn't hear you.
- **Mr. Basanth Patil – HDFC Securities**
- We have actually set a capex of 50 crores for CSM.
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- Yes, yes.

- **Mr. Basanth Patil – HDFC Securities**
- That is specially for the Pharma CSM segment.
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- Yes, yes. Its pharma intermediates
- **Mr. Basanth Patil – HDFC Securities**
- So, this revenue, this revenue what we are expecting 50 to 60 crores is for the entire 50 crore capex or only, or part of....
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- No, no. what I said the first phase of investment of approx has been spent. The production has stabilized now and we will see the full impact in the next year with little bit of investment. Not the full 50 crores.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, okay fine, Sir. So, this 50 to 60 crores is the peak revenues.
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- Yes, which we expect to flow FY'19 because the production will stabilise by then. And we will see the full impact.
- **Mr. Basanth Patil – HDFC Securities**
- Okay. So, once we are through with the entire 50 crores of capex. So, it would be, can we assume it can go upto 80 to 90 or more than that kind of the revenues.
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- It is, definitely it will improve. It all depends on the quantity and value what we get of it. So it will be a reasonable thing to expect. Yes, yes.
- **Mr. Basanth Patil – HDFC Securities**
- Sir, and can you share anything regarding what kind of the margins are higher in this CSM segment.

- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- No, we don't share those details.
- **Mr. Basanth Patil – HDFC Securities**
- Sir, that's fine and sir, any...
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- Let me tell you, nobody would be investing below, below a certain huddle rate. So, we would expect a reasonable margin on that.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, okay, fine enough Sir. Sir, any future capex plan, sir, for the next...
- **Mr. Ashish Mehta – CFO, Rallies India Limited**
- Yeah. See, the normal capex of 30-35 crores will be there which will be roughly say on an, for the replacement of the existing assets on a YOY. We have the land available for expansion, funds are available, manufacturing capabilities is already there.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, this 30 to 35 crores is largely for replacement of machine in '19.
- **Mr. Ashish Mehta – CFO, Rallies India**
- Yeah. This is over and above what we would be planning for the additional capex for existing, say this contract manufacturing.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, okay. Fair enough.
- Sir, for next year what kind of the tax rates we will be seeing. Same kind around 18 to 20%. 20 odd percent will continue for next year also.
- **Mr. Ashish Mehta – CFO, Rallies India**
- No, this is too low. I don't know from where you got this rate.

- **Mr. Basanth Patil – HDFC Securities**
- Yeah, yeah. What kind of rates we can expect?
- **Mr. Ashish Mehta – CFO, Rallies India**
- See, for Rallies standalone it should around range 28½ to 29%.
- **Mr. Basanth Patil – HDFC Securities**
- Okay.
- **Mr. Ashish Mehta – CFO, Rallies India**
- And for Metahelix it would be a little less. Because it also has lot of spend on the R&D. Largely the amount is spent on R&D.
- **Mr. Basanth Patil – HDFC Securities**
- R&D.
- **Mr. Ashish Mehta – CFO, Rallies India**
- The weighted deduction.
- **Mr. Basanth Patil – HDFC Securities**
- Okay, sir, thank you.
- **Mr. Ashish Mehta – CFO, Rallies India**
- Thank you.
- **Mr. Basanth Patil – HDFC Securities**
- That's all from my side. Thank you.
- **Operator**
- Thank you. We take the next question from the line of Aditya Jhawar from Investec Capital. Please go ahead.
- **Mr. Ashish Mehta – CFO, Rallies India**
- Hi, Aditya.

- **Mr. Aditya Jhawar – Investec Capital**

- Hi, sir. Sir, thanks for the opportunity. Sir, you know this 18% growth in top line seems pretty good, especially in the context of we get the feedback from China. In your assessment what could be the growth for the industry in Q3?

- **Mr. Ashish Mehta – CFO, Rallies India**

- For me it should be around 8 to 10%. But I would request Mr. Venkatadri to add on that.

- **Mr. K. R. Venkatadri – COO, Rallis India Limited**

- I think our estimate is anything between 6 to 8% for the industry for Q3.

- **Mr. Aditya Jhawar – Investec Capital**

- Okay, okay. That's great. So, we would have gained significant market share in Q3. Sir, if you can throw some light on you know, what specific products we see increase in traction you know that is resulting in such a steep top line growth?

- **Mr. Ashish Mehta – CFO, Rallies India**

- Mr. Venkatadri, yeah.

- **Mr. K. R. Venkatadri – Rallis India Limited**

- See, like it was mentioned. Sorry, I have got a bad throat. So, my apologies if I keep coughing. A number of new products that we launched this year and last year, have started doing well. Obviously, it's not yet very significant volume but overall they have started doing well. Some of our own products also started have actually grown. Brands like Contaf which is as old as some of you. Probably you know 18, 19 years old. They have also done well and we have gained significantly in that segment as well. So, both in the new products and then some of our existing products we have grown.

- **Mr. Aditya Jhawar – Investec Capital**

- Okay. Sir, in terms of new products, that you know are you able to identify some of the products which have potential of you know entering into mega brand category, in terms of the feedback that you have received.

- **Mr. K. R. Venkatadri – Rallis India Limited**

- Yeah, see every parent looks at every child that they will one day become somebody big and worthwhile so when we start, we always look at all the brands to become mega brands otherwise we don't launch many of them. But obviously over a period of time we realize that some of them can do much better than the others. So we also in our internal estimate or understanding, we have also identified those potential products which can do exceedingly well and we make sure that necessary resourcing and marketing support is provided to those products as well as focus from the senior management on making that grow. So yes we do have a list of products that are potential mega brands as we call it.

- **Mr. Aditya Jhawar – Investec Capital**

- Sir, the issue which we are facing with Duton, so are you seeing kind of similar issues on Rice-Up or there are no issues in terms of acceptance from the farmers and you believe that this one can also enter into the club of mega brands.

- **Mr. K.R. Venkatadri – COO, Rallis India Limited**

- See we launched you know the Duton did not do so well for various reasons, technical reasons. And we launched Rice-Up because it is a different formulation and we are happy to see that Rice-Up doing well. And what has also happened is because we came up with Rice-Up we have changed the positioning of Duton as well, so we have taken Duton to even earlier time to the nursery stage and there we find that Duton has also started doing well. Obviously you know we don't believe that Duton will become a mega brand, surely not. May be 20-30 crores we will be happy with that because the kind of investment that we put in that would give us the satisfaction. Rice-Up is something which we believe will do well, but we will have to wait and watch because the herbicide segment picks up after a couple of years only then we really get to know how can it really scale up. We still believe that it has potential however whether it will be a mega brand or not, only time will be the judge.

- **Mr. Aditya Jhawar – Investec Capital**

- Fair enough, sir, looking at the traction that we are seeing in new products as well as some of the increasing traction in old products. Are we in a comfortable position to say that our domestic branded business can grow at about 15% you know every year in the next 2 to 3 years.

- **Mr. K.R. Venkatadri – COO, Rallis India Limited**

- It is not an easy thing to give a number saying that I will grow at 15%. We do have internal targets for growth. What we consistently say is that we should do at least couple of percentage points better than the industry average. I think that's a better thing to say because if a particular season is bad, I can't grow 15% because if there is less water, less pest I cannot do a 15%. If the industry grows by 6 I must grow by 8. What we would like to say that at least 2% points better than the industry is what our focus would be.

- **Mr. Aditya Jhawar – Investec Capital**

- Okay, that's all from my side, thanks a lot.

- **Mr. K.R. Venkatadri – COO, Rallis India Limited**

- Thanks.

- **Moderator**

- Thank you, we will move on to the next question from the line of Vishnu Kumar from Spark Capital please go ahead.

- **Mr. Vishnu Kumar – Spark Capital**.

- I wanted to understand what proportion south would be in overall trade.

- **Mr. Ashish Mehta - CFO, Rallis India Limited**

- Your voice is breaking, Vishnu, I can't hear you.

- **Mr. Vishnu Kumar – Spark Capital**

- Okay, sir, I just wanted to know what proportion of your sales will be from the southern states.

- **Mr. Ashish Mehta - CFO, Rallis India Limited**

- Break up see...

- **Moderator**

- Sorry, to interrupt Mr. Vishnu Kumar, can you use the handset mode while speaking.

- **Mr. Vishnu Kumar – Spark Capital**
- Yeah.
- **Mr. Ashish Mehta - CFO, Rallis India Limited**
- I got your question. We don't share that much detail. But let me tell you the main market for us is Andhra Pradesh, Tamil Nadu, Karnataka, Chhattisgarh, MP. These are main, Maharashtra, Gujarat of course. These are the main markets for us where I would say some 75 to 80% of the sales happen. These are the main markets.
- **Mr. Vishnu Kumar – Spark Capital**
- Okay. Is the revival of the south has really helped in terms of our volume growth or apart from the other reasons that you have mentioned.
- **Mr. Ashish Mehta – CFO, Rallis India Limited**
- Yes, yes, it has helped us.
- **Mr. Vishnu Kumar – Spark Capital**
- Okay. Sir, in terms of our international business you did mention you have that lot of incremental orders. Also you did mention that some of the chemical prices in China has been coming off. Wanted to understand whether some of the factories in China are probably restarting after their environmental clearances are done or may be just shut down for winter. If they restart some of them, would some of our spot sales would get reversed.
- **Mr.Ashish Mehta - CFO, Rallis India Limited**
- I don't think so and to me it may not be a simple thing that the units which were shut down or are being shut down, will reopen so fast, that is one. Second is that we have been able to compete in some of our molecules excepting one, where the demand and the production and the sales have really gone up. And the third factor is the registration that we do, which will help us or rather which has helped us in getting the volume growth in various geographies. And the quality of the various products also what we sell vis-a-vis the pricing. That these 3 to 4 factors are helping us I think in growth of B2B business.
- **Mr. Vishnu Kumar – Spark Capital**
- Okay. Sir, again coming back to the domestic market. You did mention that trade had actually assumed a lot more material would go through this season. But how long do you think this excess inventories will probably play out. Do you think it will, the excess inventories will get cleared. Or do you think it would get some fall over effect in the next season as well.

- **Mr. Ashish Mehta – CFO, Rallis India Limited**

- I think in the next 2 to 3 months it should get cleared. Mr. Venkatadri can say anything more on this, please.

- **Mr. K.R. Venkatadri – COO, Rallis India Limited**

- Actually, one of the things that one keeps hearing that a lot of industry players are taking stocks back from the market. So, if that happens at least the channel will get a little breather but obviously the stocks would be lying with the companies. So, it is something which we need to watch that at a fundamental level how is the consumption picking up. Because the stock movement from dealers to company or company to dealers is still the same in the chain. So, the key part is the fundamental consumption to improve. Rabi looks a little good. So we hope that what Mr. Mehta mentioned, we hope that some of that stock, part of it should get liquidated but obviously we all know that Rabi is not a big season in the whole context. So how much of that will get liquidated? We know that it will not entirely get liquidated. So some part of it is likely to get carried forward to the Kharif festival.

- **Mr. Vishnu Kumar – Spark Capital:**

- Are returns that we have taken, would that be Kharif inventory or probably what we placed as a Rabi inventory where, which we have taken back?

- **Mr. Ashish Mehta – Rallis India:**

- The returns that have come are largely of Kharif only.

- **Mr. Vishnu Kumar – Spark Capital:**

- Got it. Apart from this, I wanted to understand the CRAMS order. In the last analyst meet as you had mentioned that we are also pursuing two of their contracts. Just wanted to check whether there's any update on those.

- **Mr. Ashish Mehta – Rallis India:**

- Nothing much has gone further. To answer the earlier question where, what would be the investment on the CRAMS? While we have all the resources, till and until we come to some sort of an understanding, we are not able to give a comment as to how much investment on CRAMS will happen next year. But we are all prepared for it. So as and when the big investment comes, we'll definitely be informing you.

- **Mr. Vishnu Kumar – Spark Capital:**
- My question was more in terms of, we were guided that you were pursuing two more contracts.
- **Mr. Ashish Mehta – Rallis India:**
- They have not been totally put off. They are still being discussed. So it's nothing fructified so far.
- **Mr. Vishnu Kumar – Spark Capital:**
- Thank a lot sir. Thank you.
- **Moderator:**
- Thank you. We'll take the next question from Pawan Kumar from Unifi Capital. Please go ahead.
- **Pawan Kumar – Unifi Capital:**
- Sir, my question was on the raw material sourcing of 45% that you do from China. So for these particular raw materials, are there alternative avenues to source from? Or is some capacity domestically being built up? What is the kind of scenario going forward in future?
- **Mr. Ashish Mehta – Rallis India:**
- See, some of the raw materials are only available in China and there is no other alternative available. The other alternative is to have a backward integration and do your own production. So it has its own challenge.
- **Pawan Kumar – Unifi Capital:**
- But are we thinking on those lines?
- **Mr. Ashish Mehta – Rallis India:**
- So the second important point that we need to understand is, what is the investment required and what is the payback on that one if we had to do a backward integration? So all these things are very important. It requires huge investments.

- **Pawan Kumar – Unifi Capital:**

- Sir, what is your view going forward? Are the supply issues from China more structural in nature, or this might be some temporary hiccups because of pollution issues, and then it will clear up?

- **Mr. Ashish Mehta – Rallis India:**

- See, I would say it's a combination of both. Mr. Venkatadri can add on to that. But what I'm trying to say is that while some of the industries are getting shut, and there are pressures on the suppliers, because the number of suppliers you need are getting smaller and smaller and the volume, availability and the price also have its impact. To me, this has opened up lot of opportunities within India for many companies to do the manufacturing. There are lot of capacities available. We have also looked into lot of opportunities and tried to factor in what we can do as we get along FY19 and FY 20 considering the fact that they may not be able to revive in six months, or one year or let's say more than that. But the challenge will always be there. One fine day, if you put your investment and suddenly the ban lifts and the manufacturers come back with a bang, then there would be a challenge.

- **Pawan Kumar – Unifi Capital:**

- But just to understand the scale of investments that would be needed to set up some raw material capacities of this nature, would there be investments needed in hundreds of crores or thousands of crores? What is the kind of band for a profitable operation to run for these raw materials?

- **Mr. Ashish Mehta – Rallis India:**

- For one raw material I can say it should be anywhere between Rs. 75-100 crores. It's not only the money, but a lot of expertise would be required in terms of how do you crack that process and ensure that you arrive at optimised cost.

- **Pawan Kumar – Unifi Capital:**

- Okay. Fine Sir. That was all from my end. Thank you.

- **Moderator:**

- We'll take the next question from the line of Viraj Kacharia from Securities Investment. Please go ahead.

- **Viraj Kacharia - Securities Investment:**

- Thank you for the opportunity. I just had one question. You talked about alliance benefits aiding part of the volume which we have achieved in Q3. Can you provide some colour from which alliances, which suppliers we are able to launch new molecules in the market please?

- **Mr. Ashish Mehta – Rallis India:**

- See, in the last six months we have introduced Cenator, Pulito and Odis, largely two of them coming from BASF, and the third one from our in house team. And these two products have been accepted well, both Cenator and Pulito. And also Rice-Up from Dow. They have been well accepted. I guess the full impact of it will be only seen in FY 19 when you see the two seasons. Mr. Venkatadri can add to what I’ve said, please.

- **Mr. Venkatadri – Rallis India:**

- Yes absolutely. In the earlier question also, these products have shown good promise. We have seen good traction. Farmers are happy with it. They are seeing a good benefit. We have done reasonable volumes. We didn’t even get a full season. By the time we got the product and we launched, we only got half of Kharif. We virtually got it sometime in September. So we didn’t get a full season. Even in that period we have seen good traction in it and we are looking at it very very positively going ahead.

- **Viraj Kacharia - Securities Investment:**

- Okay. The second question was on the export side. You also mentioned that you are facing pricing pressure from certain export markets from the Chinese. If we were to think of it logically, these companies who are based in China, they are facing increased cost/cross pressure because there are limited supply of raw materials even available there. Now, vis-a-vis Indian players who have that capacity in terms of integral backward manufacturing, would it be more advantageous for them to actually cater to this export opportunity which is there now? So where is the pricing pressure?

- **Mr. Ashish Mehta – Rallis India:**

- Let me add. I think in one of the molecules, I think it is the Acephate where the pricing pressure has been felt most. In the other products we have done well, i.e. we have been able to match the price. In fact we have been able to take a price increase because of the raw material price going up. So the challenge what we face now, as far as we are concerned, is one or two molecules. If Mr. Venkatadri would like to add anything?

- **Mr. Venkatadri – Rallis India:**

- As explained, there are a couple of molecules where the situation needs explaining. That's because in one or two products, China is still able to source or supply at a good price to the international market whereas when it gets routed through India, we take the raw material and make it and it becomes costlier as China is selling the finished product at a much lower price. Whereas, in couple of other products, we have been able to, as Mr. Mehta mentioned, recover the cost in the price.

- **Viraj Kacharia - Securities Investment:**

- Sir, if we had to look for the next couple of years, even if a good part of these capacity shut downs in China which is structural in nature, purely from a competitor perspective, players like us, our competitive position would be much better compared to the Chinese players a year, 2 or 3 years back. So doesn't this provide us a more long term visibility on export sign and in that scenario, would we be comfortable even with a relatively lesser profitability if we are getting that kind of visibility on exports?

- **Mr. Ashish Mehta – Rallis India:**

- Are you saying something Mr. Venkat?

- **Mr. Venkatadri – Rallis India:**

- See, the point is that, on China, obviously things that happen in China, they happen pretty fast and very quickly. As of now the closure of these factories have created a short term, I don't mean 2-3 months, but may be a year where the prices have gone up. But what I believe is that, even after the new capacities or the merged capacities come up, their costs are not likely to be much lower, because there are 2-3 reasons why Chinese prices have been lower. One is because of the easy availability of raw material. Second is the direct-indirect subsidisation by the government on costs. And the third important part of it is the lower affluent and environmental cost.

- Now the government, both on the 2nd and 3rd point, is slowly cutting that down. They are not wanting to fully subsidise them. And the same time, in terms of effluent norms, they are also tightening it. So under such circumstances their costs are only going to go up. So if India sets up capacity, and we should be doing that fast, so the delta between China and India is coming down. So how much it will finally stabilise is not very easy to estimate because one of the view is that China can after 12-15 months, suddenly decide that they will again start subsidising their plants so that they will become again competitive in the world market. That can happen. The way that country runs, one person can quickly decide and the rules can be changed to favour them. If that happens, then obviously India come back to where we were probably a year or two back.

- But in any case, I see it as something beneficial, or at the worse, being at the same stage that we were two years back. I don't think the situation of India is going to worsen after 2-3 years, rather I am positive about the future for India.

- **Viraj Kacharia - Securities Investment:**

- Actually I meant that the position of India may significantly improve and hence the visibility on exports may be more for medium to long term. The visibility on exports may be much stronger for players like us. Even if the government in China were to provide direct or indirect subsidies, would players like us be fine with having a relatively lesser profitability, but at the same time getting a much larger pie of the business?

- **Mr. Venkatadri – Rallis India:**

- See, what tends to also happen is that once you get across with customers and establish a consistent supply, the changeover is also not something which the supplier would want to do very quickly because if they added your name in the registration as the supplier, changing that would also take time. So even if China comes back, there would be another kind of a layover period before which China can again hit back at India.

- So I agree, for the next 2-3 years there is a golden opportunity and we must capitalise on that. We must then take that opportunity forward as a consistent supply. But the only thing is that none of us can write off China at any point of time. That is the only caution that I'm giving. I'm not saying that China is going to do it, but what China can do, not of us can ever fathom. That's my only word of caution.

- **Viraj Kacharia - Securities Investment:**

- Just a last question. How much of a cost advantage they have from direct or indirect? How much would that be roughly vis-a-vis India?

- **Mr. Venkatadri – Rallis India:**

- See, there are some products which only China can make today. India cannot make it at all because they control the raw materials. So for those products, they will always have a delta. In other areas where they can make and we can make, I would say anything between 20-25% is the delta. There are some products where India has consistently been more cost competitive and for some of the Triazoles for example, for the synthetic pyrethroids, India has always been a bigger player than China.

- So you can put it in three buckets. In some China, because of control on raw material will always have an upper hand. The second one depends. They can sometimes take an upper hand and sometimes we can take. The third category is where India will consistently have an upper hand. They key part of it is 1 and 2. And the more that we get a benefit out of Segment 2, India will benefit quite a lot in the next 3-5 years.

- **Moderator:**

- Thank you.

- **Mr. Ashish Mehta – Rallis India:**

- We'll take the last question please.

- **Moderator:**

- Sir that was the last question.

- **Mr. Ashish Mehta – Rallis India:**

- Thank you.

- **Moderator:**

- Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sree Shankar for his closing comments.

- **Mr. Sree Shankar – Prabhudas Lilladhar Pvt. Ltd.**

- Mr. Ashish and Mr. Venkatadri, thank you so much for taking all the questions. Ladies and gentlemen, with this we end the conference call for the day. Thank you.

- **Mr. Ashish Mehta – Rallis India:**
- Thank you very much.
- **Mr. Venkatadri – Rallis India:**
- Thank you and we also learnt quite a lot from all the questions. So the pleasure is mutual.
- **Moderator:**
- Thank you so much. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining.