Rallis India Limited

Q4 & FY19 Earnings Conference Call Transcript
April 26, 2019

Moderator Ladies and gentlemen, Good day and welcome to the Rallis India Limited Q4 FY19 earnings conference call.

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

Gavin Desa: Good morning everyone and thank you for joining us on Rallis India Limited's Q4 and FY19 earnings call. We have with us today Mr. Sanjiv Lal - Managing Director & 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 discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results release. I now invite Mr. Sanjiv Lal to begin proceedings of the call.

Sanjiv Lal: Thanks Gavin and thank you everyone for joining us on our earnings call. As mentioned, I have with me, Nagarajan, our Chief Operating Officer and Ashish, our CFO.

Before I start the discussion, let me give you a quick background note on myself and Nagarajan. Starting with myself, prior to joining Rallis, I was working with Tata Chemicals as the Chief Operating Officer of their India Chemicals business. I began my professional career with Hindustan Lever. Nagarajan was working as MD & CEO of Metahelix Life Sciences prior to joining Rallis. He has also worked with Tata Motors, Tata Cellular, and Tata Teleservices in the past.

With that out of the way, let me now talk about our vision and plans for the company. Rallis, as you all know, is amongst the country's leading agrochemical companies with a strong connect with the farmers. We have a wide distribution reach and strong product portfolio. We also have a strong relationship with global majors and have entered into several alliances with many of them to develop a bouquet of specialty products addressing varied crop protection needs. However, despite our above strength, there is an opportunity to take the company's performance to higher level in tune with our true potential. We are aware of the fact as such and our planning to undertake series of measures towards accelerating growth some of which I will mention in my conversation today.

Let me start highlighting them one by one. Starting with the domestic business, our primary focus is on strengthening the product portfolio and ensuring a healthy pipeline for the business. Work on the same had already been initiated a few years back and I am happy to state that we now have an exciting product pipeline. We plan to launch about 11 to 12 new products over the next few years. Out of these, around 5 products should be hitting the market in FY20, all going well. All these five are novel launches registered under Section 9(3) of The Insecticides Act. In addition, we are also working towards expanding our alliance network to source more molecules via in-licensing and co-marketing agreements. In terms of seeds business, we presently have a strong presence towards kharif crops, especially paddy and millet. In a bid to diversify our portfolio, we are now exploring in-licensing into Rabi maize and vegetables till such time our own hybrids get commercialized.

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Our cotton pipeline is shaping up strongly. While these measures may take a few years to fructify, this will eventually lead to less skewness in the portfolio and help achieve a superior operating leverage.

Moving on to the international business, we have taken a strategic call on selectively scaling up production of those molecules that have a clear growth opportunity. In this context, we have selected 2 active ingredients - metribuzin and pendimethalin. As mentioned in the earlier call, we plan to invest about Rs.40 crore to double the capacity of metribuzin from about 1,000 tons per annum which is the present capacity to about 2,000 tons per annum in 2 phases of 500 tons per annum each. These are likely to be commissioned by July and December of this year, and we are presently about 12% of global metribuzin market and we are expanding our capacity given that the weeds have become resistant to some of the other conventional herbicides.

Moving on to the CAPEX plan announced in the previous call, completion of the same will not only help us beef up our product portfolio and R&D capabilities, but will also help us backward integrate and lower our dependency on the imported raw materials.

Lastly, while we have ordered our credit terms to be competitive for the distributors for selective products, we continue to develop a thorough risk assessment and recovery mechanism to minimize credit risk. We also are working towards widening our distributor footprint. We have a strong footprint in the Western and Southern markets presently and we are working towards increasing our presence in the North and the East.

I am confident that with the above measures, we will significantly alter the profitability profile and revenue momentum of the company.

Now, coming to the financial performance, despite a sharp fall in profits, I remain confident and buoyant due to the following facts. And let me just talk you through some of the strengths. On a consolidated level, while income has fallen by 5.9% from Rs.372 crore to Rs.350 crore, PBT adjusted for one-time charges of Rs. 12.2 crore has fallen by 29.37% from Rs.25.19 crore to Rs.17.79 crore. If one takes out the 4 crore impacted from Metahelix, the reduction in profit is Rs.4 crore from Rs.25 crore, i.e., 16%. We are putting in place plans to improve rabi performance in Metahelix as I mentioned which will help us in ensuring Q4 does not see repeat of this Rs.4-crore burden next year.

On a standalone basis for the quarter, the total income has fallen by 6% from Rs.350 crore to Rs.327 crore and PBT adjusted for one-time charges of Rs. 12.2 crore has fallen by 10% from Rs.34.5 crore to Rs.31 crore. However, interestingly, revenue from international business has increased by 10% and international business now contributes 52% of revenue in Q4 compared to 44% of revenue Q4 of last year. International business has grown from Rs.156 crore to Rs.173 crore. Contribution from international business has also increased from 41% Q4 last year to 47% in the current quarter.

Similarly, the full year income has increased by 11% from Rs.1,525 crore to Rs.1,697 crore, up 11%, and PBT adjusted has increased from Rs.191 crore to Rs.200 crore, up 5%, in a very difficult year. This is primarily driven by 36% growth in international revenue from Rs.479 crore to Rs.650 crore. The domestic revenue has been flat. Thus, overall international contributes today 36% of revenues compared to 30% last year. Similarly, the contribution from international business has increased by 27% while domestic has fallen 5%. Hence, we see continued growth in international business as a key driver. The doubling of capacity of key molecules as I mentioned earlier is in line with this. While domestic market is stressed, we have put in place distributor and market partnership policies that will help us regain growth in the domestic market as well.

That concludes my opening remarks, we can now start the Q&A session.

Moderator: The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Couple of questions sir. First,could you throw some light on distribution expansion program roadmap over the next 3 to 5 years, how do you wish to take it up? And the Second question is in domestic business where you highlighted five 9(3) products to be launched, any category or ballpark understanding on which crop you are targeting?

Sanjiv Lal: I will just request Nagarajan to weigh in on this in terms of the distributor network. In terms of the new products, we are basically targeting 3 combinations - one technical and one plant growth regulator.

S. Nagarajan: In terms of our distribution network, as you are aware, we have what we call as SS and PD, this is the terminology which we use who then sell it to retailers. The total number of SS and PD which is the ones that we directly distribute are like distributors, which is about 3,500 distributors across the country. We expect to add another 600 or so during the year, which would take us to about 4,200. In terms of the retailers that are covered, typically the ratio is about 10:1. So, we would expect to go from about 35,000 to 36,000 retailers to about 42,000 retailers. This is the plan for the present year.

Moderator: The next question is from the line of Madhav Marda from Fidelity International.

Madhav Marda: Sir, we are looking to scale up the international business that seems to be the focus rather than the domestic one. We know the agri situation is stressed in India right now, but is it a more long-term focus on the international business versus the domestic one?

Sanjiv Lal: The international business as you are aware, it takes quite some time for developing new opportunities because of the long cycle time of registration. There is some very good work which has happened in the past and some of that is going to start bearing fruit this year and some of our existing customers are also expanding their requirements out of India and we expect to benefit from that. So, there is expansion in terms of geography and there is expansion in terms of the business that we are doing with our current partners.

Madhav Marda: On the domestic side, at least I am sensing we are taking slightly more of a backseat compared to the international business.

Sanjiv Lal: I will just like to put that into perspective. Our domestic brand is extremely strong but Indian agriculture does have its impact due to various reasons, monsoon being one of the critical ones and also there is subjectivity in terms of whether the consumption will happen or not depending on the pest infestation or the pest attack. So, there are some uncertainties which we need to be cognizant of while all of us, I am saying all of us means all the crop-protection companies try to mitigate some of these but it is a reality that there are going to be periods of stress and we did see that in Q4 of this year.

Madhav Marda: How would the domestic agri or the farmer income situation be right now going into the season? How does it look right now, the domestic situation?

Sanjiv Lal: I think what is positive is that the IMD has given a near-normal forecast for the monsoon, so we are all very bullish and we hope for a great season.

Madhav Marda: Lastly sir, would it be fair to say that the international business that we are focusing on is more the intermediates or where we are supplying one step backward from the formulation side. So, we are not particularly a branded business in the international sales. Is that a fair assumption?

Sanjiv Lal: We are not directly marketing our products into any of the markets. We are working with others who have registrations. For example, in Brazil, we are trying to get our own registration. But largely our sale is to other companies who have a good network in those countries. So, we are basically supplying them the active ingredient.

Madhav Marda: Are the margins as good as the domestic formulation business?

Sanjiv Lal: Yeah, I think we get a healthy margin in our international business.

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

Sudarshan Padmanabhan: Sir, my question is on the inventory which is there for all the agri input players including us and if I am looking at probably the muted sales that happened in the domestic business, especially in the 4th quarter, is it also because of the fact that this is largely a placement season and there is higher amount of inventory that we did not push an additional amount of inventory ahead of the season into basically the distribution network. Is that a right assessment?

Sanjiv Lal: At the end of it, while the placements are there, the consumption and liquidation is what makes for the sale and there has been much lesser, let me call it pest pressure in Q4, which has really impacted demand. It certainly has impacted the demand for Rallis products and I don't know what will be the outcome because we don't have the results of any of the other crop-protection companies but the sense I get is that there is some inventory buildup which has happened with others as well.

S. Nagarajan: I just want to echo what Sanjiv said that really and it also kind of relates back to the earlier question. In our perception, the crop economics have actually been very challenged in the last year, i.e., January to December 2018, particularly in crops like gram, rapeseed, and mustard. There has also been decline in acreages that have happened in paddy in some of the Southern markets like Andhra Pradesh, Tamil Nadu, and Karnataka in addition to the low pest load which Sanjiv alluded to. So, I think it is really driven as a function of liquidation levels more than the placement, although we have calibrated our replacements as we went along during the season as we realized the tertiary off-take was actually turning out to be lower, but the primary factor is really the liquidation and not so much the calibration on the placement.

Sudarshan Padmanabhan: Sir, my second question is with respect to our strategy. One is the off-take seems to be poor and the second is that last year we did relax a certain amount of inventory, receivable days giving a little bit better days to the channel, this year it looks like going by the numbers, we have further kind of lightened or further been a bit more lighter on the channel. But if one is looking at the numbers, it looks like there has been no impact on the numbers. If you can give some color with respect to: What is it the benefit that you are seeing with giving these credit terms and enhancing it further? Secondly, from the point of view of where it is going to stop? I mean it would be a never-ending process when you keep increasing the credit days, but where do you see that the benefits will start flowing into the numbers?

Sanjiv Lal: We have put in place a new incentive scheme and credit policy only from 1st of April. As we speak, it is being communicated and rolled out to all our distributors and our teams. So, the impact of the trade incentives and plans that we have put in place will really play out in Q1 and Q2. It is really the trade partners whose support we need for the kharif and we need to be cognizant of the fact that there are cash flow issues in the rural market and while I understand that giving credit has its own issues but we have put in place a good risk mitigation process to counter any possible outcomes of extended credit.

Sudarshan Padmanabhan: Would it stop here or do you see further credit days increasing?

Sanjiv Lal: No, I think what we have got in place is good and there is going to be no need for expanding it further. We are getting some very positive feedback from the trade itself. So, I think we are on a good wicket on getting our trade partners to fully support the organization and they have done so in the past. Some of them are very long-term partners with us and we have their full support for this new scheme.

Sudarshan Padmanabhan: Just on the one-offs you specifically talked about this retirement benefit in your press release. What is it exactly toward? If you can throw some light on this sir?

Sanjiv Lal: As you are aware that there have been some management changes which have happened over the last couple of weeks and we have had to provide for retirement benefits for some of our colleagues. That is the one-time which we were talking about.

Moderator: The next question is from Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just dwelling upon the previous participants' questions. Just for the industry bit, right since like 2014 or probably say last 4 to 5 years, we have seen a marked slowdown in the growth rate that the industry was witnessing from let us say from 10 to 14. Now, is there any specific thing that we can monitor for the industry to start turning around? Probably is it just a crop profitability which is an issue or is there something else also which kind of has changed in the industry? We see that growth is kind of slowing down across players. We see that receivables have been increasing across players as well and that inventory situation has also turned grim. So, could you just give us a broader perspective that what do you think will drive the turnaround for the industry as such?

Sanjiv Lal: Ritesh, fundamentally the consumption of crop-protection chemicals in India is much lower than what it is globally and therefore the opportunity for expanding consumption of many of these for improving crop productivity is without doubt and without question.

The key issue is the availability of funds with the farmer whether you can call it farmer distress or whatever, but I think some of the actions taken by the government in terms of securitizing wealth creation for the farming community whether it is crop insurance or whether it is putting some money in their pockets, all of this will actually go a long way in sort of triggering consumption and demand for these chemicals.

The acreage which is currently under cultivation is unlikely to be increasing, it will only be decreasing. There is going to be a demand for improving the productivity of the arable land and with the growth and demand for food grain, there is going to be a need for improving productivity as well and a lot of it is going to come from the work that we are doing as part of our seeds business to come up with better yielding hybrids and the kind of molecules that the farmer really needs to get the kind of benefit from his land that he is cultivating.

I think this is a very general statement which I have given but this is the really on the ground that unless the farmer has more money in his hand, he will tend to either underdose chemicals or simply avoid using it and then suffer the consequence of poor productivity.

Our job really as responsible company is to work with the farming community on getting the knowledge to them, and we also have huge digital interventions which we have been making including giving them weather forecast. We have got a fairly large number of farmers whom we connect with and we are providing them with advance information on weather and on mandi prices. We are engaging with them to sort of support them in their decision-making process.

Ritesh, this is what we are doing as a company and my general comments on what is happening on Indian agriculture. Needless to say that irrespective of the performance of the monsoon over the last couple of years, agricultural productivity has been going up. So, we have been getting higher food grain production happening year on year.

The monsoons tend to be patchy. Some places are impacted by drought conditions year on year where there may be more stress but overall there is a good story when it comes to agriculture. The issue is on the farmer having more funds for his own growth.

Ritesh Gupta: On the export side, are you looking at some more APIs also because what the general narrative that I hear from most of the people I speak to in the industry is there is a shortage of APIs or there is an incremental demand for intermediates from India and it varies across some of the generic APIs as well as some of the more innovative APIs as well. Is there like foray or some work going on wherein you are trying to target some more molecules which are large enough for the industry?

Sanjiv Lal: Yeah Ritesh, we are working on some of these. When we had met in the earlier investor interactions, Mr. Mukundan, the earlier MD, he did talk about work which was happening at our research station in Bengaluru. We are currently working on 3 or 4 different new technical. We should be seeing some outcomes from the work being done by our laboratories during the course of the year. Apart from that, we are also in discussion with various players for doing some job work for them in terms of preparing the active ingredients and this is largely coming out from a sentiment that Indian manufacturers are seen as more reliable in today's context where we have been having a lot of bad news coming out of China in terms of their own safety and environmental problems in some of their chemical parks which I think all of you may be aware of.

Moderator: The next question is from Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Sir, if you can help us understand in raw material pricing pressure that you are seeing, is there any improvement sequentially or what are you assessing when the impact of our raw material pricing pressure will come down?

Sanjiv Lal: Yeah, there is some trend in terms of raw material prices but I will tell you for some materials, it is going up and for some materials, it is also coming down. So, it is not that everything is increasing. The price increase is largely coming out of some of the issues which we are seeing in China, especially for those chemicals which are coming in from there and there have been some delays which has led to price increase for some materials, but needless to say that we are actively working with many of our suppliers to ensure our supply chain is not going to impact our manufacturing operations.

Aditya Jhawar: But in terms of pressure on gross margin, what is our assessment? Till when, I mean at least for the next 2 to 3 quarters, the pressure would continue or you are seeing some respite in latter half of the year?

Sanjiv Lal: I don't want to comment on the gross margins except to say that we are cognizant of the price changes, and as appropriate, we may need to take price corrections also because if it is affecting us, it is affecting everyone.

Aditya Jhawar: On the distribution incentives, what are the specific steps we have taken in terms of increasing distributor margin or something and how different are we from the industry practices?

Sanjiv Lal: I will just request Nagarajan to just give you a general sense of what is it that we are trying to do without getting into very specifics. Of course, those specifics if you go into the field, you will get them, but in general terms, Nagarajan if you can just give an overall scheme that we have?

S. Nagarajan: In a general sense, there are multiple components or multiple levers within the channel policies which we have looked at. The principal one is with respect to aligning or making our credit terms much more competitive compared to what they were in the past, but of course being responsible about this and ensuring introduction of elements in the policy, which would encourage prompt payment. That is really the combination of credit-term relaxation with a prompt payment kind of our incentive. The other element of course is with respect to channel motivation. We have had a certain kind of motivational programs in the past and we have revamped them. The third is of course with respect to our own internal processes and policies with respect to supporting the growth much more actively. These I would bucketize as broadly the 3 areas that we have looked at. There are a number of other smaller areas but they are much smaller.

Aditya Jhawar: But broadly, our incentive structure is it better than the industry in terms of margin that we offer to the channel partner and has it changed in FY19 vs FY18?

S. Nagarajan: Incentive structure if you are going to be comparing it with the industry, I would put it that it is competitive because obviously there are multiple levers which determine the sales level; the strength of the relationship, the quality of the product, the reach of the distribution, and of course the incentive program. These are all different elements as we see it and we have tried to sort of make the bouquet a lot more competitive. With respect to FY19 and FY18, how the two compared, perhaps Ashish would you be able to throw some light on that?

Ashish Mehta: Actually, the focus is more on the tracking of the tertiary sales and the liquidation of the secondary sales where we feel that we need to have more such contacts, and as Mr. Nagarajan mentioned that the retailers are going to be increased currently, that is exactly what we are doing, having more such programs linked to the off-take by the retailers through the dealers with whom we work. So, the focus is definitely increasingly going towards the retailers' end because they are the face to the final consumers. And of course, the new policy also speaks about lot of cash incentive; there is incentive for prompt payment, there is incentive for advance payment. We have revamped that from 1st of April. And I am sure the channel would like it and this was one of the feedbacks which we used to also get from some of your analysts' meet with the channel or retailer. So, suggestions also have been taken.

Aditya Jhawar: Thanks a lot. That was extremely helpful, and thanks for the improved disclosure with regard to domestic and international business.

Moderator: The next question is from Levin Shah from Value Quest Research. Please go ahead.

Levin Shah: First question is on this international business. We have seen a 36% growth this year. If you could break up this growth in terms of geography or in terms of product baskets, where this growth is coming from exactly?

Sanjiv Lal: Largely, there are 3 products, Levin, which are basically metribuzin, pendimethalin, and acephate which are our backbone products. These are the 3 products which we are largely exporting to the key customers.

Ashish Mehta: Just to link the earlier comment of expanding some of our technical from 1,000 tons to 2,000 tons. Largely, it is going to cater to the international market and we see buoyancy in the demand for these products. That's the way we have been working on.

Levin Shah: Like you said in metribuzin, we already have 12% market share and we are doubling our capacity, right?

Sanjiv Lal: That's right.

Levin Shah: And what would be the growth of the market itself like the product growth?

S. Nagarajan: I don't have a number per se, but I think certainly the digestibility of the market for the additional capacity that we are creating is significantly there. There are dislocations in the supply chain globally because of the China effect as well. So, I think we should really be able to have adequate demand for the additional capacity planned.

Levin Shah: Secondly, on this CAPEX plan. In the last call, we had said that we will be doing Rs.800 crore CAPEX over the next 3 to 4 years and that was divided into 4 phases. Where exactly we are on that plan and how much we have already spent and what more are we going to spend?

Sanjiv Lal: Levin, what we have already committed on the ground is the expansion of the metribuzin capacity by 500 tons per annum x 2, i.e., in 2 phases taking us to about 2,000 tons. That work is currently underway. The equipment has been ordered and it will be installed during the current year. We have also started development of another large plot of land that we had in Dahej which we call the chemical zone where the work on leveling for setting up our formulation plant has already been completed. There is a boundary wall which has started coming up on that very large plot of land, and we will also be putting in place certain capital investment for backward integration of some of the ingredients that we currently depend on from outside of India. So, the capital program is well underway.

Levin Shah: But we had announced like Rs.100 crore was the first phase and Rs.170 odd crore was the second phase. So, Rs.100 crore we had already committed as of end of last quarter and this Rs.170 crore where exactly are we spending that?

Ashish Mehta: Both phases will be in the Dahej, the chemical zone as well as in the SEZ zone. Largely, it will be for backward integration of our 2 major molecules. We plan to start by say 3rd quarter of this year, i.e., the budget also we have taken for the current year.

Levin Shah: So, this Rs.170 crore is the budget for the current year?

Ashish Mehta: Just to answer your query on why metribuzin is more because there has been a good demand in overseas market as dicamba which is one of the major molecules, it has become pest resistant and the switch is now more on the metribuzin. So, that is why the demand has gone up.

Levin Shah: Lastly, on this international business. If you can give some color on the geographies that we are attending and is it because there is this supply crunch from China that is helping us?

Sanjiv Lal: The China impact is certainly there but I think some of our business partners see us as a reliable supply base. We are currently doing business in US and in Brazil and in some of the Southeast Asian countries.

Levin Shah: So, basically the growth has been led by these 3 geographies?

Sanjiv Lal: Yes, correct.

Moderator: The next question is from Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Firstly just wanted to recheck some numbers. You mentioned the export revenues from Rs.479 crore to Rs.650 crore for full year. Is that right?

S. Nagarajan: Yes, correct.

Vishnu Kumar: You also mentioned something called contribution margin. What exactly is that and if you could elaborate a little on that?

Ashish Mehta: Vishnu, you may not get it correlated from the SEBI results, but if I were to give a broad idea about the margins in the international market vis-a-vis the domestic market, the share of the profits because of the revenue going up in international market, the profit has come largely from the international business. As in the opening remark, it was mentioned that the domestic sales compared to last year was almost flat. In that perspective, we made that remark that the margin has gone up and of course there has been a pressure on the domestic margins. It has largely dropped by 5% if I were to compare it from last year on a full-year basis.

Vishnu Kumar: If you can repeat that number again?

Ashish Mehta: Let me put it this way. The domestic in the formulation market, the margins are generally high. In the B2B market, it is in one segment and in the contract, it is another segment. So, there are 3 types of margins we have because of the type of business.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

Rohan Gupta: Sir, first question is on the domestic business. It was flat for us and I understand that a price-led growth was there because of price increases of many input costs. Can you just break it up how much was the volume degrowth and price-led growth was there in this year?

Ashish Mehta: Rohan, if I see the overall numbers in the domestic market, whatever cost increase was there, 90% was made up by the price increase if I were to summarize that way.

Rohan Gupta: We have seen a flat revenue growth. I just want to understand what was the price-led growth was there so that then we can break it up between volume growth and price-led growth.

Ashish Mehta: All I can say is that while there is a flat growth compared to last year, whatever cost increase was there, we have been able to pass it on the price. There are specific volume growths in certain molecules and certain degrowth also in certain other molecules. That is the message we would like to give. Further details may not be possible at this juncture.

Rohan Gupta: But in general for the industry if we derive that it means that for the industry also, you would have seen that in volume terms, there was a degrowth across the industry this year?

Ashish Mehta: That's the message and the understanding we have when we talked to some of our industry friends.

Sanjiv Lal: I think we will get a better clarity on that once everyone's results start coming out. I think because Rallis is perhaps the first to come out and so you are seeing our performance the way it is.

Rohan Gupta: In Q4 numbers, once again in domestic business, which shows a significant degrowth because your export business was up by 10% and with a revenue -9%. It means that domestic was down by almost 20%. Can you give some numbers that it was mainly because of some sales returns which we have done in the current quarter or it was in general there was overall weakness in the market?

Sanjiv Lal: I think basically the issue is on consumption. If there is no consumption, you will not have the sale and therefore there will be inventory issues and there will be market returns also because beyond a point, we don't leave the material with the trade because they are not in a position to pay for it either.

Ashish Mehta: Rohan, it is the combination of two. Sales returns were there, more than what was estimated, it was a little higher. Then, seeing the inventory level at the market, generally we like to place the materials closer to the consumption. So, we were a little cautious about it, a little conservative on our sales plan this year. And plus the new pricing policies also were to be announced. So, that's why we went slow on that one.

Rohan Gupta: Sir, we also base our revenue growth going forward on new product launches. However, in the last 3 years cumulatively we have launched more than roughly 20 products in domestic market in various combinations. Would it be possible for you to give some understanding that why even despite aggressive launches in last 3 years, our revenue growth in the domestic market was muted and when we are saying that over the next 1 to 2 years, we have almost 12 to 13 new launches planned in, then what is going to be different this time and these product launches versus what we have launched in the last 3 years?

Ashish Mehta: See you know how Rallis has been working like. We have been offering all the suite of solutions to the farmers and hence when and where we see a gap, we try to get that molecule through our alliance partnership. That is one. The second is, when we track the ITI, we see that ITI last year and this year has been same which necessarily means that the growth from the molecules what we had introduced had not come out as expected, but that was not the expectation that all the 20 molecules whatever we have introduced in the last 3 years would fire from all cylinders. The second part is, lot of research work has been done in last 2 to 3 years where we are going to see the result coming out in this year in the introduction of the new products. A couple of products which we introduced last year has seen a volume growth like Summit we had mentioned in the last conference call also, and we believe that the new introduction which will come out from our table which is largely 9(3) and 9(4) products will definitely boost the top line.

Rohan Gupta: Sir, you mentioned ITI was at similar level last year. I think it was 10% last year?

Ashish Mehta: Yeah, it is almost same, this year is also same.

Rohan Gupta: 10%?

Ashish Mehta: Yeah.

Rohan Gupta: Sir, just moving onto export business. Sir, you mentioned that roughly Rs. 650 crore, almost 36% growth has come in export business. Can you just mention what was the contribution from these 3 main molecules - metribuzin, pendimethalin, and acephate in this revenue?

Ashish Mehta: Major sales come from these three plus the hexaconazole also. These are the only 4 or 5 molecules which we sell in AI form plus a little bit of Metalaxyl. So, largely, the growth is from all these 4 molecules only, but major if I were to rank it, metribuzin and then followed by acephate.

Rohan: And in metribuzin, we are doubling the capacity and what are the plans in pendimethalin and acephate?

Ashish Mehta: The pendimethalin capacity was already done last year, and if we see the scope, then there is also provision there. We will definitely cap it up.

Moderator: The next question is from Deepak Malhotra from TPG. Please go ahead.

Deepak Malhotra: Just one small clarification on the CAPEX program. You mentioned that Rs.270 crore has already been incurred or is it in the process of being incurred?

Ashish Mehta: In the process of being incurred.

Deepak Malhotra: How is this being funded?

Ashish Mehta: It is largely through internal accruals.

Deepak Malhotra: And for the further CAPEX which we have up to the Rs.800 crore, do we plan to do it also through internal accruals or do we plan to take any debt for the same?

Ashish Mehta: Deepak, these Rs.800 crore which is planned over the next 3 to 5 years, we assume largely it will be funded through internal accruals, and if required, we also have a plan to monetize some of our assets.

Deepak Malhotra: While you mentioned about your new product launches which you are already working as part of the new technical which Sanjiv-ji also mentioned at your R&D

facility, by when do we at least start seeing the effect of all this on the actual performance in your view please?

Sanjiv Lal: Deepak, one of the products is getting through the registration process which we hope will get completed during the May month. So, that is one product which will be kicking in. Perhaps, we will be able to catch the latter part of the kharif season, and the others also are in the process of getting the registration approvals. That may take a couple of months more but one of them is almost there. We are just waiting for the certificates to get the product into the market.

Deepak Malhotra: So, what you are effectively saying that any significant or noticeable effect will only be kind of one could see perhaps going in the second half of the year in terms of the numbers or quarter 2?

Sanjiv Lal: Let me just put a reality filter on this. A new product at least will require 2 seasons before it reaches a sizeable volume to make the kind of bottom line impact. So, we should not expect that we introduce something today and we will be able to get huge contributions coming from it. It will take only the next season when it will start really giving the benefits. So, while we are talking about 5 new things, it is important for the farmer, it is important for the trade, but it will be only in the second year that we will start seeing the full benefit of these introductions. That is, I am putting the reality filter on this, Deepak.

Deepak Malhotra: Just one more small thing. Although you did allude about monsoons being good or bad and with Skymet and IMD being at variance in the past and we have gone through all that and still the productivity more or less has been maintained, but this year again we have a similar situation where we are at variance in terms of the monsoon projections and plus we are also hearing about rural distress and then the government again trying to put money in the hands of the farmers and so on and so forth. Given all that kind of background, how hopeful are you for the coming season?

Sanjiv Lal: Deepak, actually I am very, very optimistic and as I mentioned that irrespective of how the monsoon has performed, if you see the overall growth in terms of food grain, it has got a positive trajectory. The monsoon even if it is underperforming, what happens is we look at average performance, but there are parts of the country which have actually got very decent monsoon and there are some parts which will get stress. So, when you look at the average, it looks as if the monsoon has been deficit and certainly there are some areas which have had the third consecutive year of drought, but keep in mind that there are vast parts of the country which are actually getting very decent and well spread out rainfall which is actually helping the overall growth in the agri production.

Moderator: The next question is from Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Just want to confirm, out of the standalone revenues of Rs.1,670 crore, you said Rs. 650 crore is international, the balance is all domestic formulation or there is some CRAMS or domestic institution as well in that?

Ashish Mehta: CRAMS will come under the international business because they are all exported.

Dheeresh Pathak: And so balance Rs.1000 crore for this year is all domestic formulation?

Ashish Mehta: Domestic formulation plus plant growth nutrients.

Dheeresh Pathak: But there is no domestic institution business per se, domestic B2B?

Ashish Mehta: It is a very small figure.

Dheeresh Pathak: Of the exports, you highlighted the key molecules. Can you also share the mix of exports in terms of technical versus formulations?

Ashish Mehta: Formulation is a very small portion. It is gradually growing over the years as we get more registration, but I would say about 80% is still the technical sales in the B2B business segment. Just a rough estimate I am telling you.

Dheeresh Pathak: Of the Rs.650 crore of international revenue, can you give a geographic mix or country-wise mix?

Ashish Mehta: See you are aware that we have this contract manufacturing and a larger portion of that also goes to a particular customer and from there it is formulated and sold across the countries. We send the materials as per their requirement. I am not sure whether giving a figure that we have sold in this geography would make sense in that manner.

Dheeresh Pathak: How much is contract manufacturing out of Rs.650 crore?

Ashish Mehta: Around 27% to 28%.

Dheeresh Pathak: And this is 1 client, right?

Ashish Mehta: No, both put together.

Dheeresh Pathak: Two clients, okay. The last question is that you mentioned metribuzin is doing well because dicamba has got resistance. I thought dicamba was doing very well because Monsanto has been increasing capacity many folds.

Sanjiv Lal: Dicamba and glyphosate, both these herbicides are having some resistance issues. So, this could be one of the contributing factors for the demand for metribuzin.

Moderator: The next question is from Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: Firstly, on Metahelix, how do we think about Metahelix going forward from now? What is the thought process there? Would Rallis summarily be an agrichem or will it be agrichem plus seeds or what is the main focus on is the first question. Second question is, from what we understand in the last 2 to 3 years, there has probably been a churn in the middle management at Rallis. It is at least my understanding from the ground. Some thoughts would be helpful like what are you doing and about this?

Sanjiv Lal: One is that there is a certain level of attrition which all organizations have, and in some parts of our business, for example in the seeds business, we have been seeing a slightly higher attrition than what we would like. We are taking some corrective steps for retention. We will be putting those processes in place. We see ourselves as an agro sciences company between what we do in our seeds business and what we do in our agrochemicals business. Certainly there is some very good work which is happening in the seeds business and I will request Nagarajan who has been in the past the Managing Director & CEO of Metahelix to give some insight as to what is the overall plan, but I would just like to add that we had earlier spoken when we had the meeting with all the investors that there is a product gap which we have for rabi. While we have an excellent kharif when it comes to our seeds business, rabi tends to be weak. So, all that we do in terms of great performance in kharif tends to keep getting diluted by the time we come to Q4. So, we have got a portfolio issue which Nagarajan and team are working on and we hope to have some fix on that through in-licensing product because it will take us some time before our own seed variety becomes available.

I will just request Nagarajan to add some further perspective to this.

S. Nagarajan: To add, under circumstances which have been fairly challenging, I think the seeds business has actually grown over the last 3 or 4 years. Certainly, the growth rate could be much higher and that would certainly be one of the important focus areas for us. This is with respect to the top line. The opportunities that present themselves are that the seed revenues that we generate today are with relatively minor or a small presence in the largest seed market which is cotton. Metahelix actually started later in the cottonseed area and I think the headroom for growth really comes about from enhancing our portfolio, our cottonseeds. Similarly, in the case of vegetables, there is a significant amount of headroom and those are couple of crops which are important growth areas for the seeds business.

With respect to the profitability aspect of it, I think balancing the rabi and the kharif like what was already spoken about is a focus area and I think there is some room for the rabi maize portfolio and also to some extent the spring maize and summer millet portfolios to actually improve either by way of in-house R&D or by way of in-licensing. Efforts are underway on both those fronts. So, we actually look at seeds very positively and it is an integral part of the overall consolidated company's offering to the Indian market.

Moderator: The next question is from Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Broadly, should we keep in mind FY20 year is more of a transition year wherein things will migrate from the earlier strategy to a new strategy?

Sanjiv Lal: Let me put it this way, Nitin. The only significant change that we are doing is in the way we are approaching the domestic market. The work which we had started a couple of years back on international business has been giving us the benefit which we sowed in FY19 and we will continue to build on that going forward. The main issue is what I had highlighted related to the domestic market which really needs to kick in, and we feel that the approach that we have taken is the right one and we will get the outcomes of that within kharif itself.

Nitin Gosar: Would you like to put some number to the front-loading of cost that we may land up seeing during FY20 because of the transition? Any fixed cost which is one-time in nature because of this transition?

Sanjiv Lal: I don't think it is of any significance which will change the profit profile of the company.

Nitin Gosar: One last question on alliance. If you can comment on crop chemical basket, what kind of alliances you are looking out and where are we today?

Sanjiv Lal: At this stage, I would only say that we are working with some of the big multinationals on identifying the opportunities. We have had a couple of very, very useful meetings and some of them are already partnering with us for the last couple of years in development of combinations and formulations. So, it is something that has already been ongoing and we are adding to the list of things that we are co-developing along with them.

Moderator: The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Talking of Metahelix, for our cotton products, when do you see our competitive range of cotton products be available in the market? By which season?

S. Nagarajan: I think we are already having a reasonably competitive portfolio for the South and Central markets. We have some distance to go on the North Indian market, I guess, over the next few years because as you would appreciate, breeding is a long-term process and also there are dependencies on regulatory approvals before we are able to introduce the product. I would say that in the medium term, the pipeline portfolio is very strong and it is the question of actually now completing the trials and introducing them in the markets. So, I would say in the medium term, we should expect a very good cotton portfolio in the market.

Nitin Agarwal: For the immediate term, what will continue to drive? Which sort of crops are you more bullish and more positive on for the Metahelix portfolio?

S. Nagarajan: Even in the intermediate term, the cotton seeds that have been introduced in the South and Central markets are available for scale up because these have been introduced over the last couple of years, and like it was previously mentioned, it takes a couple of seasons before we are really able to kind of ramp up after fine-tuning our production and also the market activity. In addition, in-licensing is an option that is available for those markets which we are not having our own direct products or our own R&D developed products.

Sanjiv Lal: I would also just like to add that we are, for this current year, bringing in a very specific focus on fruits and vegetables and we are driving that as a separate line of business with its own focus.

S. Nagarajan: Actually, vegetables is another big growth area. It also helps us in making the revenue profile more uniform through the year. Of course, it is also a much more challenging area considering the demand that the customers have for vegetables is a lot higher than for field crops. In order to increase the focus on the vegetable crops, from April, we have constituted a dedicated team which will focus only on the vegetable crops without the pressure of achieving the volumes on the field crops. That is something which will not only focus on credit management but also on demand generation. Our R&D work is also underway with respect to vegetables as well as in-licensing. So, we should expect, in the medium term, scaling up of the vegetable business as well.

Moderator: The next question is from Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: My question is on the backward integration. How much investment have we made in the last 2 to 3 years on backward integration and what is expected in the next couple of years?

Sanjiv Lal: Rohit, we have actually not made any investment in backward integration yet. We have articulated that we will be spending about Rs.140 odd crore in backward integration for which the work will be starting during the current financial year.

Rohit Nagraj: And how much dependence will be reduced on the raw material supplies due to this backward integration?

Sanjiv Lal: We are also a growing organization. So, I would say that it is good to de-risk by doing backward integration. We will of course continue to be largely dependent on many of our partners through whom we source many of these raw materials, but what we are trying to do is to de-risk where we find that certain molecules which are important for our portfolio which is basically the active ingredient portfolio, we don't want to land up in a situation where due to some disruption, we land up in compromising our commitment to growth for those particular molecules. So, we will be de-risking for those areas where we feel that any disruption can impact our portfolio or performance significantly.

Rohit Nagraj: And we have already identified those intermediates?

Sanjiv Lal: Yes.

Moderator: Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sanjiv Lal: Thanks Gavin, for organizing this call. I trust that some of the questions that have been asked today have been answered appropriately. We have tried to give more information in this conference call. Going forward, we will seek approval from our audit committee and Board on giving further disclosures. While we have articulated some of these numbers and all of you have made notes on that, but we will see how we can improve our disclosures in a manner that our investor community can gauge our performance in a manner which can sort of better describe what we believe Rallis is all about. Thank you for all the questions and for all those who are on the call. I appreciate the time that you have taken to hear out from us.