Rallis India Limited
Q4 FY20 Earnings Conference Call
May 06, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited's Q4 & FY20 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, Janice. Good day, everyone and thank you for joining us on Rallis India Limited's Q4 & FY20 earnings call. We have with us today Mr. Sanjiv Lal – the Managing Director & CEO; Mr. Nagarajan – the Chief Operating Officer and Mr. Ashish Mehta – the Chief Financial Officer.

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

Sanjiv Lal: Thank you, Gavin and thank you everyone for joining us on our earnings call today. I trust all of you and your loved ones are safe and healthy and as Gavin has already mentioned Mr. Nagarajan and Ashish Mehta are joining me on this call. So, to begin with, I would just like to highlight couple of macro level developments before we move into the Rallis specific developments.

Let me just start by saying that what all of us have experienced over the last 1.5 months has been truly unprecedented. I don't think many of us would have imagined the severity and magnitude of this crisis at the beginning of the year. What started as a country specific issue in China has rapidly transformed into a global pandemic impacting businesses across geographies and continents.

Our thoughts remain with the communities and individuals including the healthcare workers and the first responders most deeply hit by the COVID-19 crisis.

Moving on the business side:

Q4 has been very eventful for Rallis as we merged our subsidiary Metahelix Life Science and the financials reflect the merged accounts including that of Zero Waste. The merger of Metahelix has gone through smoothly both at the people process level as well as financial alignment. While the negative impact of COVID-19 is being felt across the industry, we have seen gradual resumption of operations across the country. Our facilities at Dahej, Ankleshwar and Lote were permitted to operate in

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April although with a significantly reduced strength which would allow for social distancing. Rallis also got an FDA approval for producing alcohol-based hand sanitizer at its formulation facility at Akola and later at Ankleshwar as well. About 140 KL has been produced and distributed free of cost to various government departments, hospitals, local communities and the Tata Trusts in various parts of the country. We utilized part of this shutdown period, this lockdown period primarily to take up our annual maintenance activities for critical jobs at Dahej and Lote and you will recall that earlier in the year there has been significant disruption out of China and at that point itself we had sort of prioritized taking our annual shutdown for our facilities in the month of April. So that was very much as part of our overall plan. On the input front, while we had faced issues on availability from China during January, the supplies have recommenced with some delays due to logistic issues. These logistical challenges of product shipment during the last quarter of Q4 itself due to the lockdown has since been resolved. Moving on to our markets, we believe that the Rabi season has played out well led by ample water availability which should result in a higher output. Advanced forecast available from the IMD indicate a normal monsoon which bodes well for the Kharif season. Both our domestic and international business continues to perform well during the year. Our efforts in recent times have been to review the product portfolio with an endeavor to launch at least two new products each year over the next couple of years. I am pleased to say that we have started on a strong note in this regard, having launched 6 products in FY20 itself. Three of them were 9(3) products and the others co-marketing. While it is too early to comment on the success of these products, we are heartened by the initial response from our customers. In addition to the product portfolio we have always been working towards widening our distribution reach and I am happy to share that we have made good progress in this area as well. As you are aware, we had revised our trade terms making it more aligned with the market during the first quarter of FY20 to support our partnership with the distributors. This strategy worked out well as can be seen by the improvement in our cash position.

Moving on to the seeds business. Our efforts under this business has been largely directed towards strengthening our Rabi portfolio given that we are relatively well placed in the Kharif segment. We are focusing on Maize and Mustard crops in the Rabi space. Further we are also targeting and undertaking steps towards building a vegetable portfolio. Such efforts would help us in balancing our portfolio and drive growth under the seeds business. While our seeds business was also classified under essential services and essential products during the COVID-19 lockdown, considerable efforts had been made by the team and our colleagues in the field and the factory to ensure that the seed production harvest could be brought into the processing plant for packing and dispatch to the north India market in time for the season and we have been able to complete a large proportion of our placements.

Shifting focus to the international business where we are presently working on two molecules and the contract manufacturing, we are undertaking steps to leverage our tie ups with global innovators to expand this part of the business. The other focus area for us in the international business has been to strength our alliances and we are again constantly looking towards broadening our product base and branded formulations through co-marketing arrangements. Further we are also actively looking at the opportunity to register our own brand and increase the revenue from the formulation business. We believe that our efforts will help us to gear up the business in the near term.

I would like to touch up on our CAPEX plan. We have announced a CAPEX of around Rs.800 crore for strengthening our domestic and international. The commencement of operations of our new Metribuzin line had got pushed back because of the lockdown and our formulation facility at Dahej is now running behind schedule and will not be available for the coming Kharif season. This will however not impact our product availability for the current year. Lastly, we also setting up a state of art R&D facility in Bangalore to further drive our growth with a significant step up in our product development for crop protection, crop nutrition and seed research. The design of the new center has commenced. To conclude I would just like to reiterate that while the impact of COVID-19 will be felt for some time, we continue to be positive for the long-term growth trajectory of the business and undertaking steps drive the next growth phase for the business.

I would now request Ashish to walk us through the quarterly financial performance and with that it is over to you Ashish.

Ashish Mehta: Thank you, Sanjiv, and welcome everybody to this Q4 & FY20 earnings call of Rallis India. As Sanjiv, already mentioned, the quarterly results include the financials of the merged entities, Metahelix Life Science and Zero Waste.

a) I will first touch upon the crop care business, how we fared in Q4 as well as for the whole year. Revenue at Rs.322 crore was marginally higher compared to same period in previous year. The profit before tax of Rs.1 crore against Rs.19 crore registered in the same previous year. This against the announcement of nationwide lockdown pan India to contain the outbreak of COVID-19. The operations of the company were disrupted at certain manufacturing locations and depots of the company. As a result of which goods worth Rs.16.04 crore could not be dispatched to the domestic market. Further international shipments were also disrupted due to absence of transportation facilities in the last week of March 2020 resulting in lower shipment of Rs.53.18 crs

This apart, there could not be any invoicing done for the domestic market in the last 10 days of March. You would have noticed there was a sharp rupee depreciation in the last 15 days of March and as you all know that we enjoy a longer credit period on imports vis-à-vis a shorter credit period of realization of exports. There was an MTM impact which we have mentioned in our investors slide which has been put up on the Rallis website. Approximately Rs.9.9 crore of MTM loss had to be accounted in the quarter, and this also impacted our EBITDA margin. There are certain additional provisioning which we had to do as per the guideline given by the institute and they relate largely to receivables and stocks Overall the impact was ~ Rs. 4 to 5 Cr. We also saw certain drop in the G-sec rate which has an impact on the actuarial evaluation which also had an impact on the operating margins. This was roughly about Rs1.2 crore. So overall if you see the impact on the current quarter's financials because of all these factors led to a drop in EBITDA margins. While the revenue growth was modest over the previous year, there was a volume growth both in domestic business largely driven by new products like Ayaan and Zygant. Further pricing pressures on B2B business in the international market like Metribuzin and Pendimethalin continue to be felt.

For the full year, of the crop care, the revenue was Rs.1, 881 crore against Rs.1, 672 crore of FY19, a growth of Rs.210 crore reflecting 13% growth over previous year. In the previous year you would recall that we had a business of seeds, which was discontinued in the fourth quarter of FY19. If we were to remove the value of that which is around Rs.30 crore and make a like-to-like comparison then the overall growth in the crop care business is 14.5% compared to previous year. Out of this 14.5%, maximum growth is through volume. Out of the total growth in absolute terms, almost all increase came through volume growth, domestic business accounted for roughly around 70% driven by introduction of new products during the year. The ITI was 16% for the year FY20 registering a good healthy growth over the previous year.

Now coming to the seed division:

It registered a sale of Rs.24.47 crore for the quarter against Rs.21.86 crore registered in the same period in the previous year. The loss for the quarter was around Rs.18.47 crore, against Rs.17.74 crore in the same period in previous year. For the full year, the seed business total revenue was around Rs.364.42 crore against Rs.336.21 crore for FY19 registering a growth of 8.4% amidst the volume growth and price realization.

To summarize the other highlights of FY20, cash from operating activity was at Rs.337 crore against Rs.80 crore in the previous year. Total liquid investments for the company as of 31st March stood around Rs.300 crore, up by Rs.200 crore compared to previous year. Working capital improved by Rs.75 crore at the consolidated level. For the crop care division, working capital days improved from 106 days in the previous to 74 days for the current year.

This is all from my side. We can now start the Q&A session.

Moderator: We take the first question from the line of Aditya Jhawar from Investec.

Aditya Jhawar: Sir, you mentioned that there was this provision of about Rs.3.5 - Rs.4 crore that includes the provisions for receivables and slow moving inventories. Sir, if you can help us better understand, are you foreseeing a situation where there could be some meaningful bad debts written off? And typically, in this, every year, what is the kind of provision that we do in this quarter for bad debts?

Ashish Mehta: See these receivables are provided as per the Expected Credit Loss model defined by the institute and this is a model which is basically on the ageing of receivables compared to current year versus last year and also under various brackets of every quarter, every half year vis-à-vis the last year. And going by the collection trend, we thought it would be good that we take some additional provision given that there was a slowness in the collection. If this was not done and the current condition would have continued for a longer period there could have been an impact on the collection, which would have come and hit us in the first quarter or second quarter going forward. So, this is out of prudence we have taken a call. If the collection happens automatically the reversal happens of the provisions.

Coming on to the slow moving, non-moving stocks. You know some of the stocks, much before the expiry, 3-4 months before expiry, the materials what are produced out of our technical are sent back to factory for processing. And because of the lockdown there was a restriction of movement of material. So, it was an additional provision we took that in case the materials are not able to move on time and reach the factory there could be an impact. So, it is just a provision we have taken to be on the safer side, more on the conservative side.

Aditya Jhawar: That is helpful. Sir, how do you foresee production ramp up in Q1. So, you mentioned that some of the plants are starting production and by when do you think that we would be back at pre-COVID utilization levels?

Sanjiv Lal: So, Aditya, we had informed on April 27th that our plants are restarting at Lote and at Dahej. Ankleshwar has been sort of operating at low rate depending on the availability of manpower. Now one of the biggest challenges before the industry is going to be manpower. From Rallis' side I can say that more or less our supply chain related with incoming materials has been largely set right or resolved, you may use that word. But in terms of availability of labor, availability of manpower, it is something that is going to be a bit of a challenge. So, we are expecting that over a period of time this will slowly get resolved and operations will be at full capacity. As of now I would say that we would be close to running where we need to although with lesser manpower. So, our operating teams are there working at the factory and those who are the office staffs, support staffs all working from home so that we can minimize the number of people at the workplace.

Aditya Jhawar: Sanjiv, if you can highlight, are there some preliminary talk with regard to China plus strategy where we are engaging more with customers on a potential de-risking from China and Rallis would potentially gain from that. Are there some preliminary talk going on?

Sanjiv Lal: We have already kept everyone informed that we are in discussion and these discussions are going on and it is also publicly available as announcements including things by the Japanese government who have assured their industry that they are going to be making available $2 billion for Japanese companies to shift their businesses out of China. We would like to believe that Rallis would be one of their preferred partners going forward. But as of now there is nothing to confirm or report.

Moderator: Thank you. The next question from the line of Prashant Biyani from Prabhudas Lilladhar.

Prashant Biyani: Sir, do you expect the loss of sales of Q4 to materialize in Q1 especially in the International business?

Sanjiv Lal: We have not seen any cancellation of any orders and I think the International business will be on track only. So as of now there is no reason for us to be concerned.

Nagarajan S: So, since you specifically asked that question whether you expect it to come back in Q1, the way we are approaching it is that we have had some difficulty in shipments last month, that is in the last month of last quarter that is in March. We have not had any cancellation but we are trying to retain that business but also be conscious of the fact that in the domestic market Kharif season is coming up. So, the way we are approaching it is to try and see if there is a scheduling of the business that can be done over a longer timeframe in this year, i.e., in the first few months of this year. So it will not be a one-to-one map to sort of expect that it would all come back in Q1, but we are presently hopeful that we should be able to retain it in the course of this year.

Prashant Biyani: Okay. And how are we positioned in terms of supplying materials in the domestic market? If the growth is decent in Kharif in India, would we be in a position to more or less supply the required materials that the market demands?

Nagarajan S: See, I think as you are aware that supply clearly has been disrupted in the month of March-April. Freight rates have gone up. Availability has been a challenge. Drivers have not been available for many of these trucking companies. So, under these circumstances we are trying to navigate through this space and make sure that both the seeds as well as crop care items come through to the respective markets. The way we are approaching it is, we are prioritizing markets, we are looking at places which are green zone, for example, we are looking at orange zone, we are looking at the red zone trying to identify at a micro level each of the distributors to whom we should supply and also trying to pay attention to the last mile. That is from the distributor to the retailer and onwards to the farmers. So, I think those are the actions that we are taking, but at an overall level, yes, it is challenging. It is certainly not as it was earlier; it is more expensive and more challenging to plan it out.

Prashant Biyani: Okay. And just last question our gross margins have improved marginally this time. Was it due to the higher share of domestic business or in general are we seeing a declining raw material prices and hence this margin expansion is sustainable?

Ashish Mehta: There was a product mix combination in the domestic market which also had a positive impact on the margins. As of now it will be too early to say whether raw material prices increase will be there and how it will get impacted in the given condition. But this is the fact that in the quarter there was a good product mix in the domestic business.

Moderator: We will take the next question from the line of Nisarg Vakharia from Lucky Investment.

Nisarg Vakharia: I maybe repeating what you have aid earlier, but can you please highlight what is the absolute other expenses which is the one off in this quarter which will not repeat?

Ashish Mehta: There was an MTM loss of about Rs.9.91 crore which is part of that other operating expenses. That is one and there were certain other provisions which we had made based on the guidance given by the institute given the COVID-19 conditions especially on the receivables and also on the stock provision which I have explained already.

Nisarg Vakharia: And lastly out of the Rs.16 crore and Rs.53 crore how much of the sales is lost and how much is deferred for the next quarter?

Nagarajan S: I think at this point in time from the International portion that is about Rs.53 crore, we are hoping to retrieve it over the course of several months, not specifically first quarter. As far as the domestic business is concerned, it is a little bit more intricate because there is a specific season, specific stock, and as you cross that time, it is difficult to retain that business. So, it is a little bit of a mixed situation in the case of domestic business.

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

Nihal Jham: Sir, just wanted to start off with the domestic business and on our working capital. You mentioned that there has obviously been a certain change in policy. So, if I understand right, have we tried increasing our cash discounts to see to it that the receivables have gone down for this year if I just have to understand better?

Nagarajan S: Yes. I think at the macro level what you are saying is right, but it is a little bit more calibrated than that. Like we had explained last year, we had increased our credit period compared to the previous year. FY20 versus FY19 if you were to compare, we actually increased the credit period. But while we increased the credit period, we also increased cash discount, we are calling it payment incentive basically at various milestone payments, right, prompt payments rebate. We had also emphasized the advanced booking incentives. Essentially, we did what you said, which is to have incentivization for early payments. But we also had a penalty for delayed payment. So, it is a combination of 3 things, extended credit period, increased incentives and penalties for delayed payments. The net effect of all of that is what we are now seeing, after maybe running it for a year, we are finding that it has helped us in terms of, I mean our sales has gone up and collections are very strong.

Nihal Jham: And if we just look ahead, just wanted your comments on currently farmer liquidity and also do you expect that because of liquidity issues you could see an increase in receivable in the channels for the coming quarter or 6 months?

Nagarajan S: See, what we are hearing from various sources as you know is that among the various sectors that are affected in the economy, the agriculture sector is relatively less impacted. Now there were many studies which people have provided and one of them happens to be from Crisil who have indicated a 5% decline in the median income of farmers. But I think as you would appreciate, the median does not really convey the full picture. There is a distribution of farmers. There are people who are in the fruits and vegetable segment who are likely to be more affected compared to the ones who are in wheat or rice which are likely to be less affected. So, I think there are different products in our portfolio and different geographies of the country and I think it is going to be a match of how we kind of link the two to minimize the company level impact. But certainly, at an aggregate level there is a projected income decline. Liquidity in the market is expected to be difficult even at the channel level. So, we do foresee difficult conditions ahead. Having said that the way we are looking at it is to try and improve our channel policies and also refine our credit control framework which we use to determine which distributors we supply materials to and so on and so forth. So, I think it is a combination of some prudent actions that we are taking and I should say that some positivity in the agricultural market as well as the government initiatives I think all of this will really result in what the final outcome is going to be. But you are right, it is going to be a difficult period from a liquidity standpoint.

Nihal Jham: On the International business, I think over the last 5 months we have been highlighting that there has been a pressure on pendimethalin and metribuzin specifically the prices. I just wanted to understand a little more from your side on the industry scenario that is it a question of clear cut over capacity and this situation is something you expect to continue for the coming few months especially considering our capacity will also get commissioned for Metribuzin in the next 2 to 3 months whenever post lockdown?

Nagarajan S: Definitely, I think situation in the US market has led to an overhang. We have also seen studies of how the COVID-19 has affected the farmer's income in the US market and we do find that there is an impact in the corn market or in soya bean market. But we are also understanding that the sales of pesticides maybe somewhat less correlated with the farmer income. There may be other factors that will play up as well. And as things improve on the weather front, maybe the demand would increase and the supply overhang that we have thus far witnessed may come down. I mean these are all just subjective at this point in time, but the pressure on the price point for both the products what you mentioned have remained. There is also a reduction in the price point of the intermediate as well. So, I think what we really are focused on is trying to sort of compare the difference between the two which is really where our margins lie.

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

Dhavan Shah: Firstly, about the CRAMS opportunity. So, you are doing two molecules at present. So, I just wanted to understand the opportunity size of these two molecules and by what time you will included say another molecule in the CRAMS portfolio and if you can share the run rate of the CRAMS revenue for FY20, it is my first question.

Sanjiv Lal: As far as our contract manufacturing business is concerned, we have mentioned that we have been in discussion and as and when we have something confirmed to report, we will get back and report, but our discussions with various companies is on. And as far as existing two products are concerned, one of them is currently seeing considerable pressure, because it is a polymer that we produce which goes into the Aircraft Industry. And we are all aware of this situation on the aircraft industry. So, there is a decline in the consumption of that particular material. So, we will be seeing some erosion of sales for that category for the FY21. We will report back once we have confirmed business on the contract manufacturing part.

Dhavan Shah: And what is the opportunity size, if you can share in terms dollar-rupee terms and how much are we doing right now in the CRAMS portfolio?

Sanjiv Lal: In opportunity size, it really depends on whom we partner with and for what quantity, what value, so these are things which we can only know once we have finalized these kinds of contracts. But as I was mentioning in an earlier response is that there seems to be a lot of interest of many countries to look at India for manufacturing and I think the government is also very keen that, we position ourselves, we in the sense India positions itself as a preferred destination and they are doing all the right things. Hopefully the government will come up with some very clear policies and guidelines on how investment can be attracted and we would also like to believe that because of our background as one of the pioneers in contract manufacturing. Rallis would certainly get an opportunity to work with many companies on contract manufacturing.

Dhavan Shah: And second one is you already mentioned that some of the molecules what you are selling for the international market, you are seeing the pricing pressure. So how is it, in terms of the cost dynamics, is it also in line with the realization and you also mention that some of the CAPEX are delayed by around a quarter or two. So how do you see the asset turn of the incremental capacity going ahead?

Sanjiv Lal: When we are talking about products Metri and Pendi coming under pressure on pricing, the other thing to note is at least for Metribuzin, while there is a pressure on pricing there is also a correction which is happening on the price of the intermediates and key inputs that go in for that. So yes, there is a pricing pressure but it is also getting balanced in large way by the input prices as well.

Dhavan Shah: As we are delaying our CAPEX for few molecules by one or two quarters and the prices are also under pressure. So how do you see the asset turn of these few molecules over the period of time? Will it be in the same line as we are doing for the rest of the business or we can see something like in the asset turn?

Sanjiv Lal: Actually on Metribuzin we had mentioned in our previous call that there is a huge overhang of inventory in the key markets of North America and this inventory overhang is expected to come down by Q2 and we expect that by Q1 that additional capacity which has got delayed by couple of months will be up and running. So we don't foresee any loss of business arising out of the delay in the CAPEX and as far as the formulation facility and the Dahej SEZ is concerned, while it is delayed by a couple of months, in any case we have not factored it in for our Kharif requirements.

Moderator: We will take the next question from the line of Varshit Shah from Emkay Global.

Varshit Shah: Sir, firstly on the gross margins. Can you just help us understand that in terms of the spread in your international market, the spreads have remained same or on a quarter-on-quarter basis they have declined and net of benefit in RM and realization pressure. So that is my question number one. And in the question number two is, in the domestic business I think you have seen a sharp jump in gross margin improvement. So just purely driven by change in product mix or there is something else, I mean there is some price hikes or something?

Nagarajan S: I just want to say that on the international business, our margins have been under pressure. I think for the full year if you were to look at what you are calling as the spread, or what we internally look at the business in terms of gross contribution there is actually a reduction in gross contribution. So, net of the raw material cost benefits the price pressures have had an impact on the business for the full year of FY20 versus FY19. As far as the domestic business is concerned like what Ashish already mentioned in the quarter, it is more of a mix and I think we would not read too much into it because it depends on what products constitute the revenue which has been reflected in Q4. And there is no special price increase that we have executed in much of Q4. So, I don't think the effect there is very large.

Varshit Shah: Sure. And just an extension to that. So, I think the raw material in general for the domestic business are subject to coming down, so net of currency, are they better going into Q1 and Q2 or there is some way before it actually starts becoming better?

Nagarajan S: So, if you look at our product basket, we have several brands. So, in certain cases we have imported materials where like you correctly said there is a Forex impact as well apart from the price movement. There are several products which are domestically produced either by us or sourced from other domestic manufacturers and there the price movements are somewhat different, certainly not the way the Forex movement has happened. So it is very difficult to give you an overall response but we are dealing with each of those at an elemental level, at the product level keeping in mind what the market can bear, keeping in mind what we can pass on, keeping in mind what we can absorb, it is a combination of all these factors.

Varshit Shah: Just one last one from my side, so the international business. So incrementally have you seen any business sort of inquiries increasing because of suppliers wanted to diversify, not in the CRAMS but our pure international business or it gives more business as usual at this point in time?

Nagarajan S: Well, I think diversification trend had already started consequent to the environmental and thereafter the safety challenges that we have already seen in the Chinese market. So, what we are finding is that it is sort of accelerating you can say. There are more people talking about it. But at this point in time, I mean when we are talking in May, at this point in time there is nothing specific that we have to report that we have gained because of this.

Moderator: The next question from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, I would like to understand about additional dealers we have added during the year, some 400 above. Which are the zones or which are the states that this additional has happened and, in the past, you had also talked about rationalization in dealer network. So, if you could highlight how we have improved in this sense and if there was any large market which was missing from our side, what are we doing to work on that?

Nagarajan S: We are doing both. We are adding as well as reducing, there is a net addition of about 400 SS/PDs. And these are happening in different markets. The process that we follow is to look at each market, each state and look at specific market within that and try to identify our distribution gap and try and plug those. As far as dropping the existing partners, we look at the kind of business that we have done with them, the kind of other performance metrics like sales returns and payment behavior and so on and so forth. So effectively we are doing that in terms of specific geographies that we are intensifying. Yes, we are intensifying. As you know we are relatively better placed in certain pockets like Telangana, Andhra Pradesh, Maharashtra and a few markets in the country, but we are focusing on places like Madhya Pradesh where we have some improvement to carry out.

Chintan Modi: And in Northern part if you could highlight, like in Uttar Pradesh and these are also very large market, Punjab, Haryana?

Nagarajan S: The way we see it is that there is a need for a holistic solution to really take advantage of the action that we are doing. We need to have a right product. We need to also have the right distribution. So, the combination of the crop-pest solution that we are offering along with the distribution solution is what we are really looking for.

Chintan Modi: Okay, got it. And sir, last Rabi we had launched Mustard in the seeds business. So how that has played out in fourth quarter and what you think about the upcoming, under the next Rabi season because we plan to launch new seeds.

Nagarajan S: We are very satisfied with the kind of response we have had. The Mustard introduction has played out well. It came in between Q3 and Q4 of this year. We are quite satisfied with the kind of response that we have got. We are hopeful on that particular product.

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

S. Padmanabhan: Sir, if I look at the balance sheet specifically on the inventory portion, I mean largely the inventory on year-on-year basis has been kind of flattish almost. I mean we are looking at almost Rs.675 crore going to Rs.700 odd crore, I mean despite of sales growing and we also talked about this deferment of sales which is primarily there, which can spill into the next quarter. So number one if you can help me bifurcate this into finished goods and raw materials and number two, I mean normally if I look at every fourth quarter we tend to build inventory for the coming season and if I look at it I am not able to visualize whether we have been able to do it. So, does that mean we will see softer offtake in the first quarter or is there any lower demand that we see potentially for the forth coming crisis?

Nagarajan S: I think while we don't provide that level of granular detail what you are seeking in terms of the breakup of the inventories i.e., finished goods and raw materials, at a macro level I can say that there is an increase in the raw material which is there as consequence of what we discussed about COVID. So, we are having an increased level of raw material purchases. There is also an increase on account of the material that we could not invoice out. The finished goods also has gone up. But I think these are only two elements but there are other things which are there within the inventory figure that we report. So, I don't see, and if you think about seeds, the inventory has also increased compared to last year. So, I don't think we are underproviding the inventory as far as supplies for the year. There is nothing to be read into the inventory from that standpoint.

S. Padmanabhan: Sure. But is there a change in the way accounting has been changed or something because I hardly see a jump, I mean if you are saying that there has been an increase in your finished goods and raw materials, I mean technically the number should be a much higher number than probably what I have seen here?

Nagarajan S: Maybe I should clarify that. When you look at our inventory there are certain products. It is a combination of many products. So, you would have some reduction in certain products, but you could have an increase in certain other products, leaving the overall finished well inventory pretty much at the similar level. But for the desirable product therefore actually have larger amount of inventory. So, there is obviously movement within the groups that is why I said that from our Q1 or going forward situation we are not thinking we are under provided.

S. Padmanabhan: Sir, my second question is, as far as the season goes, from what I understand is first demand will primarily come from fertilizer and we understand that the demand of fertilizers has been advanced primarily with the fear of availability of material and assuming that the season starts on time and probably we are seeing a good Kharif as per whatever the MET department is talking about, there is also good amount of water level on the ground and we are also seeing actually initially there is a jump on the paddy which typically is more favorable for agri inputs. So if you are assuming that the demand is going to be there in place, I mean should there be any issues, number one, as far as production is concerned in terms of availability of materials and number two, you see any issues in terms of making available these products because of transportation etc. over this 1Q or 2Q. I mean, are we on track mainly to capitalize on whatever demand that we see on the Kharif side despite of whatever…?

Nagarajan S: As I mentioned earlier it is a challenging situation from the availability as well as the cost of transport as well as the last mile availability, not just from the distributor, not just from the C&F point, not just supplying to the C&F point but supplying to the farmer at the end of the day. There are challenges. They are slowly improving. But one of the important things which needs to be recognized is that the government has been extremely supportive of the industry, pretty much agriculture was the first industry which kind of opened up even during the lockdown with the essential commodities tag. So, I do not want to reduce or belittle the difficulties and the challenges that are there in the market, those are there. We are working on it and we are doing our best to navigate through it.

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

Abhijit Akella: Sir, one of the comments I got in your opening remarks was that there was no invoicing done in the last 10 days of March. So, I just wanted to confirm whether I heard that right and if so, what would be the amount of billings that would get deferred to the next quarter?

Ashish Mehta: Yes, the comment was correct. It will be not a correct to give a number as this relate to our plans

Nagarajan S: Just to add to what Ashish said, this is pertaining to the domestic market. What you heard is correct. In the domestic market it is not an automatic shift, right, from what is not invoiced to go into the next quarter because it is dependent on the season and that is why I think in the earlier question I had indicated that it is not an automatic given that it will be recouped in the next year.

Abhijit Akella: Second was just with regard to where the operation stands right now at the plants, if you could help us get some sense of what is the level of capacity utilization at which we are operating our various units, mainly for the export capacities, I guess? And then second in terms of the port infrastructure. What I gather is that, the ports are probably running at a throughput level of no more than say 30% odd of normal levels. So, what are you seeing there and how does that impact let us say our first quarter shipments? Thank you.

Sanjiv Lal: In terms of the port you are right, there is a lot of congestion which is there in the port. My understanding from whatever I have heard is that there is a lot of export cargo which has got stuck and therefore the incoming cargo is also getting delayed plus also permission of CFAs and shipping agents and all too also visit the ports. So, these things are slowly getting untangled and we have also faced those issues, it has all been resolved and our containers have also started moving out from the port as well as the exports have also started happening. So, the ports will sort themselves out and our plants as we have already mentioned has been started up. In fact, Akola plant where we do formulations has been running practically from the third or fourth day of the lockdown being announced where we had also mentioned started taking up formulation of hand sanitizers. So, it has been running with a limited crew and as the people are becoming available, we are increasing the production of formulation from that plant and the production has also started coming out from Dahej as well as from Lote where we do largely export cargo which is metri, pendi and acephate.

Moderator: The next question is from the line of Kunal Mehta from Vallum Capital.

Kunal Mehta: Sir, this seed season will be precursor to what is going to happen in the Kharif season. Of course, there are other variables. Can you give us an understanding of how we see the seed season performing for the next two quarters?

Nagarajan S: So, I think maybe I can share some thoughts on what we are seeing and we can draw conclusion from how it might go. One is of course that the monsoon forecast has turned out to be positive. I think it is saying normal monsoon which I think is good input. What we are finding is that supply disruptions have existed but they are also getting resolved. In fact, seeds industry being the first like I said within the agriculture when it was opened up, I think it has benefited quite a bit by the government's support. So, materials are moving. Processing is happening and that way it is a little bit positive. From the standpoint of moving material to the C&F point I think we could say that but for some increased cost at some point in time we are perhaps I think pretty much sorted, at this point in time. All these things could change depending on the second Covid wave and all of those which people are talking about. But I am just saying that at this point in time. But the movement from the distribution or C&F and distributor point to the farmers is something which is happening. It is started in some markets. Places like in Punjab what we have seen is that maybe some farmers are advancing their purchases because they do not want to probably venture out as many times as they would have normally to procure their seeds. But that is very limited and anecdotal. We don't have a full behavior pattern established on this. But certainly at the trade level we are finding that there is a scarcity mindset or panic buying, whatever way you want to call it, it has been noticed in the case of fertilizers also where it has been reported that the sales have been significantly higher in April this year than last year. Maybe a similar thing is what we are also finding in seeds. But we will have to wait and see. So, at this point in time, the focus, our focus is to make sure that we get our materials into the market and ensure availability. We are focusing purely on that and we will have to see how the whole thing goes on. It is also going to be correlated with how the lockdown goes, how the situation changes on the ground. It is very difficult to, it is a very complex subject to really predict how it will go up, but right now it looks like we are certainly in a better situation compared to any other industries.

Kunal Mehta: And sir, second, I have another question. I wanted to understand how you see volumes, I am sure this is a very tricky question and you are faced with multiple factors of how things would behave. But what I am trying to understand is that because of delays in shipments through geographies like Europe and North America, we are going to see a lot of material being passed on, being flooded to into the domestic market because the suppliers not been able to export these materials. So, I wanted to understand, for the coming season do you see, there could be an oversupply of materials, I am sure of course, I also appreciate that the last mile connectivity is also a challenge and so is the logistics. So how do you see the whole inventories in the channel behaving in the next 3-4 months once we have built up the Kharif season?

Sanjiv Lal: I think the domestic market just simply cannot absorb, if I go by your hypothesis that the exports will not happen and all of that will go into the domestic market. The size of Indian export of active ingredients in agro chemicals is too high for the Indian market to absorb. And there is really nothing to suggest that the international markets will not be able to take this material, like the way the Indian government is focusing on agriculture, I am sure in all the key consuming markets like Brazil and US, their political leadership is also focused on getting agriculture fully back on its track. So, there is really nothing to suggest at this stage that we will have anything dramatic happening on the export of agro chemicals.

Moderator: The next question is from the line of Rohit Nagraj from Sunidhi Securities.

Rohit Nagaraj: Sir, couple of questions. One is a precursor to the earlier participant on the logistic point of view. So how the logistic is doing during the current period. In terms of availability of the intermediates or the surfactants on domestic market which primarily probably coming from the MSME segment, are those available and if they are not available, is it hampering our production and at the same time we have talked about the transportation cost, so because of the transportation will there be a pressure on margins at least for Q1?

Sanjiv Lal: So the logistics, every day I think things are simply improving and we expect that there may be a slight increase in cost but it is not something that the business cannot bear. The other issue is around the supply chains for manufacturing and things like even packaging materials sometime becomes issue. But what I must say is that the advocacy which has been done by various associations and the focus that the government has on agriculture, many of these things are getting resolved sooner than later and apart from big cities which are still covered under red zone, most of the industrial activity as of the last couple of days has also been allowed. So, we would see a gradual improvement unless something dramatic happens, which would sort of reverse the positive direction in which the manufacturing is moving.

Rohit Nagraj: Sir, the second question is on the International business which is partly deferred as Mr. Nagarajan was saying. So, these products which were supposed to export in Q4 would have been for a particular season and particular crops. So how do you foresee that those will be recouped over the next few months, maybe the season is over or the crop which was supposed to be there those planting has already been done? So how do you foresee that particular business coming in?

Nagarajan S: I think the key difference is that typically most of the exports are B2B sales, right, so you have a buffer in between, unlike in the domestic market where you have a formulated product which goes directly to the farmer and therefore the season dependency is much higher. Here you do get the benefit of an intermediary player who can actually stock up or stock down depending on the situation. So that is what is giving us the hope that the international businesses can be retrieved.

Rohit Nagraj: Okay. And just small book keeping question on the CAPEX front. What was the CAPEX for FY20 and given the circumstances what is the number we are looking for FY21? That's it, thank you.

Sanjiv Lal: So, for CAPEX we have done some rationalization in terms of how we need to move forward. So, we will be looking at close to about Rs.100 crore in terms of spend. While there are some delays, we are not shying away from making the investments on a growth requirement for putting up new capacities.

Rohit Nagraj: And FY20 CAPEX number that already been booked?

Ashish Mehta: The cash flow was around Rs.65 crore for FY20.

Moderator: The next question from the line of Amar Maurya from Alf Accurate Advisors.

Amar Mourya: Firstly, now given that Q1 and Q2 are the, 60% of our revenue and this supply side and utilization issue. So, do we see some revenue leakages because of these?

Sanjiv Lal: We have already articulated that there are lot of potential challenges and real challenges on the ground and the situation will change from one day to the next day and maybe for the next couple of weeks, things will keep changing. As of now we are not seeing any significant or major issues in terms of our ability to make available products. There could be some products which may not be able to be fully make available. But these things we will need to balance out.

Nagarajan S: And as we mentioned earlier, I think we are prioritizing availability. So, I think that is really what we are doing… in fact if you relate it to the earlier question that was asked from the margins, again I would say that we are prioritizing availability.

Amar Mourya: Okay. And sir, like you know you mentioned that there was 10 days of invoicing not done in domestic market, so like you know would it be like in Q1 also there would be a similar kind of number, 10-12 days kind of an invoicing?

Sanjiv Lal: By the time we got to the first week of May, most of these things have started resolving themselves. But the point which had been made earlier that there is a certain requirement which comes from the market, for example it was very much the crop season happening in the Eastern markets and if there is a requirement of let us say on fungicide, which is required to be addressed, attack of let us say blast in that particular paddy crop and we were simply not able to move the material even out of our warehouse; then that opportunity is completely lost. It will not come back because by that time the issue is addressed, the farmers already faced the problem of the pest and consequences of that and it becomes a loss sale. So, it is very difficult to say that the invoicing which did not happen, how much of it we can recoup because it comes in opportunity loss because the issue for which that material is required; simply could not be supplied.

Moderator: The next question is from the line of Rajat Setiya from Vrddhi Capital.

Rajat Setiya: In seeds business, Q1 is the only quarter when we make our profits and this quarter lot of disruptions happening, one month of lockdown already in place in April. So, are we looking at huge degrowth in the seeds business in this quarter?

Nagarajan S: No, like I mentioned earlier, seeds were within, I mean if agriculture sector was let us say the least affected in this present situation, seeds was the first in the agriculture sector to probably get the benefit of both the government and all company's attention. So therefore, from our point of view we are not working on the assumption of what you are saying. We are actually working on supply, making our supply and availability as what we have planned. So that is what we are really focused on. Disruptions are there. There is no question about it. Whether it is the early problem we had in terms of moving the seeds from the production centers to our processing factory or even getting the requisite manpower in the processing factory and then subsequently the logistic issues that we face. But I think those have, I should say not fully solved but certainly they have settled down to a pretty large extent and our focus is really to supply the seeds that we have planned.

Moderator: The next question is from the line of Levin Shah from Valuequest Research.

Levin Shah: Sir, I would just like to know how we are placed in terms of raw material availability, like you dwelled upon in the beginning like the availability has improved, but are we able to get raw materials from China? What would be your dependence on China and how has the prices moved in the recent past?

Nagarajan S: I just wanted to say that first of all raw material availability from China has improved, there is no question about that because the Chinese manufacturing plants have come back and that has improved. But I think what we need to keep in mind that there are 3 things in the raw material supply, right? One is the availability from the international source, that is production there. Second is the shipping logistics and third is inland logistics, within the country, within India. Now I think we have had challenges as you are aware in all the three areas. Whether it is production, inland logistics or the shipping lines. If you see the Baltic index for example it dropped considerably when the COVID broke out. But all of these are slowly settling down. We are working through the challenges and it is something which we are very keenly monitoring and it is also something which we will have to almost monitor from a month-to-month kind of a basis because it is while you may have material on order, until it really reaches your factory you are not in a position to really start the production of the subsequent product. So, I would say that things have certainly improved compared to what they were one and a half months back. Are we still facing challenges, are we concerned about it, certainly and that is something which is deserving and getting our attention. In terms of price movement of the raw material again it is mixed actually. Some of them have gone up but some of them have gone down too because of the oversupply and the difficulty in moving the material maybe because of these reasons we are finding both ways movements are happening on the raw material side.

Levin Shah: Sir, and our dependence on China for raw material?

Nagarajan S: We have about 55% or 54% of our raw materials which are coming from China. There is no change in that percentage at this point in time.

Levin Shah: Sir, and my next question is on this product the we have launched during this year. So Zygant was one of the major products and also there were other products that we had launched this year. So, how has been the performance and do we see any of these products be a sizeable part of overall revenues in maybe a year from now?

Nagarajan S: Like what Sanjiv mentioned we had 6 products that we have launched in the FY20 on domestic market. Zygant is what we mentioned is certainly one of them. We also have Ayaan and Sarthak. So these were 3 products which were 9(3) products that were launched; Zygant, Ayaan and Sarthak and we had 3 co-marketing products that is Trimbo, Cameo and Impeder**,** So we have in all 6 products that we had launched and our view is that response that we received for I would say 5 out of the 6 because Sarthak came much later in the year, has been quite encouraging. We are hopeful on all these 5 products. Zygant specially has been quite encouraging to us.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: This a year where as we mentioned because of the challenges which are there, there is going to be some incident disruption. I mean, structurally do you see anything changing for the business given the fact that such environments typically the weaker players tend to struggle a lot more than the well capitalized, you know people with better liquidity just like us?

Sanjiv Lal: That is certainly something which can potentially happen and we will of course have to wait to see how the others in the market are going to respond to all the issues which we have already discussed. So, I don't have an answer to your question, in terms of how the others will be able to withstand the issues and challenges of the market. I think that only time will tell, but certainly those companies who have got good liquidity would stand much better in the market at least during the course of the next couple of months as we go through these very challenging times.

Nitin Agarwal: And second question, with all these issues which are there, there will be concerns around the farmers not getting paid on time for the Rabi crop. Do you see a situation where the farmers who down trade a bit on the crop protection side, in terms of not probably going for more expensive material, is that a possibility?

Nagarajan S: That is very difficult question, in fact we are constantly trying to ask ourselves that question whether there will be a downtrading or whether there would will be up trading because when you have limited amount of money do you choose the strong brand which is a proven brand because you really want the guaranteed result or do you want to make do with what is, also a brand but available at a lower cost. So this is actually a very difficult question, but I think what we are nearing around to a view that it is going to depend on two things apart from of course this income level. It is going to depend on the crop we are talking about and it is going to depend on whether it is something which is a prophylactic or whether it is a curative**.** So if you are in a crop where the export realization for example are good, like grape crop, even though that is under pressure at this point in time, you might see a little bit more interest in going for superior brand because you want to really maximize whatever you are left with because we hear that there is considerable amount of grape production that has got destroyed thereby limiting the income level of the grape farmers. But on the other hand if you again consider it as whether it is prophylactic or a curative, if it is a prophylactic where you just want to do something on a habitual basis to prevent the occurrence, maybe you would settle for a weaker kind of a brand rather than necessarily the number one brand. So, you probably could choose downgrading there. So, it is a little hard to say, it is probably much nuanced. It goes crop by crop and farmer by farmer. So that is actually the question that you ask is a great question and that is what we are constantly trying to figure out in our marketing conversations.

Sanjiv Lal: I will add to that. I think even the government is quite aware of the fact that agriculture, especially the Kharif season has to succeed and even from the side of the associations and all various suggestions have been given to the government including how to increase the credit limit on the Kisan Credit Cards and all of these things plus I think even in terms of mandi receipts, how fast the government is making money available into the farmers account is also important. There are number of things that government is already doing, is considering doing and as Naga is saying that even some of the choices that the farmer makes is really going to determine how the Kharif season is going to play out. So I would say, since this is the last question, I would just like to sum up to say that the sentiment overall is, the way we see it, it is positive because of the positive outlook that has been indicated by the IMD in terms of normal monsoon. The activity that is happening in terms of the rabi crop coming into the mandis and the markets and the government effort in terms of putting in place mechanisms including creating local mandis closer to the farm where the farmer can go and leave his product. So, the things as far as Indian agriculture is concerned, so far seems to be helpful. I think agriculture is an important area like the way pharmaceuticals is and this sector our expectation is, would be less hurt compared to other sectors where the business is completely collapsed. Whether it is the airlines or hospitality or travel industry. So, we are in a much different place than many of the other sectors are. So, there is nothing to suggest that we cannot have a good kharif season as we stand today. But again, the situation is dynamic and things could change from week to week over the next one month and over the next couple of months as well. So, with that, it is back to Gavin and the CDR Team.

Moderator: Thank you very much. On behalf of Rallis India Limited we conclude today's conference. Thank you all for joining us. You may now disconnect the lines.