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Rallis India Limited
Q3 FY '23 Earnings Conference Call
January 19, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '23 Earnings Conference Call of Rallis India Limited. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited's Q3 FY '23 Earnings Call. We have with us today, Mr. Sanjiv Lal, the Managing Director and Ms. Subhra Gourisaria, Chief Financial Officer.

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

Sanjiv Lal: Thanks, Gavin. Good afternoon, everyone, and thank you for joining us today on our Q3 earnings call. As mentioned, Subhra, our CFO is joining me for this session. I'll begin the discussion by providing a brief overview of the industry before delving into Rallis' specific performance.

At the industry level, overall demand, especially in the domestic market, was somewhat sluggish during the quarter, largely owing to delay in sowing on account of the extended monsoons, and higher channel inventory due to slower off take during the kharif season. Having said that, rabi acreage for all major crops has been satisfactory across states and water reservoir levels continue to



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remain healthy. Demand in the international market, on the other hand, is witnessing headwinds due to stocking levels in specific actives and countries, despite remunerative commodity prices.

Moving on to Rallis' specific developments, starting with our headline numbers; we have had a flat revenue compared to last year's third quarter. Domestic crop care business, however, grew by 6.7%, largely price driven. Crop nutrition business grew by 22%. Exports revenue declined by 6.5%, chiefly due to inventory buildup at our customer end. As mentioned earlier, a challenging external environment, particularly erratic rainfall in the domestic market and headwinds in international business, restricted volume growth during the quarter.

EBITDA for the quarter stood at INR 53 crore. EBITDA margins came in at 8.5%, lower by 2.3%, owing to lower gross margin and increase in other expenses. Profit for the quarter stood at INR 23 crore against INR 40 crore reported during corresponding period last year.

Moving on to individual businesses, starting with our domestic business as mentioned, the external conditions were not favorable for growth. Overall revenues were impacted by higher kharif returns due to erratic rainfall in states like West Bengal and Chhattisgarh. Our inventory levels, that was somewhat elevated at the end of Q2, has moderated in Q3 and rabi outlook looks favorable.

In terms of new product launches, we introduced one new 9 (3) pre-emergent wheat herbicide, Daksh Plus during the quarter. Our efforts in recent years have been directed towards plugging the gaps in our portfolio, especially for certain crops and certain pests. We have also been working towards expanding our distribution network and working on alternate channels as well. At the end of Q3, our retail footprint reached 60,000 for our crop care business.

As far as international business is concerned, we have seen a decline in revenues during the quarter. The decline was primarily volume-led, higher inventory in some of the markets for our a.is has been the chief cause.

Utilization rates for Pendimethalin, Kresoxim-Methyl, Acephate plants continues to remain satisfactory, underscoring the key demand for these products. On a nine month basis, Metribuzin has seen gradual pickup in sales, following



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normalization of inventory in the global market. As far as pricing is concerned, we had indicated pricing pressures for Acephate in Brazil, as well as Hexaconazole in Southeast Asia.

Regarding our seeds business, Q3 being a small quarter for seeds, our revenue was INR 24 crore. Focus is now on field level demonstrations, marketing activities and preparation for the kharif season. Our BRL trials on Maize in Karnataka have commenced and we will be taking up cotton BRL trials in the coming kharif season. In preparation for the upcoming kharif processing and packing operations, quality inspection of our inventory is underway.

Overall margins for crop care as a whole was impacted due to headwinds in the margins from international business. We are hopeful of sustaining the margin expansion by increasing our focus on margin accretive formulation business and judicious customer mix. In terms of the contract manufacturing segment, we expect PEKK shipments to commence in a small way from Q4 after a gap of two years. The two recently won contracts, which in a way reflects our commitment towards reviving and growing the contract manufacturing business, are awaiting regulatory approval in their respective markets, prior to commercialization. We have had a number of good visits from some prospective customers to our plants and we are hopeful that some of these will translate into future opportunities.

Last, as mentioned in our previous calls, we are making steady progress towards reducing our dependence on China for raw materials, by sourcing some of our key starting materials from domestic suppliers.

To conclude, we expect the business to exhibit steady improvement going forward. For the ongoing rabi, we remain positive due to increased crop acreages, robust commodity prices and healthy water reservoir levels. While the overall growth rate may be dependent on external factors, our efforts towards improving our product mix, widening our distribution reach, scaling up our capacities and efficiently sourcing raw materials positions us well to limit the overall impact and deliver consistent results going forward. On a positive note, some of our new hybrids for the seeds business have had a good start, with a record collection under the Advanced Booking scheme.



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With that, now I'll request Subhra to give us insights on the financial performance.

Subhra Gourisaria: Thank you, Sanjiv. Good morning, everyone, and thank you for joining us today for our Q3 earnings call. I'll quickly walk you through our financial performance for the quarter, post which we shall commence the Q&A session.

Starting with the top line, our revenues for the quarter stood at INR 630 crore as against INR 628 crore generated during Q3 FY '22, a growth of 0.3%. The growth has largely been driven by the growth in domestic market and crop nutrition business while International business saw degrowth during the quarter. Domestic business registered revenue of INR 368 crore, higher by 6.7%, largely due to price hikes undertaken earlier during the year.

Volumes during the quarter were largely benign, as far as domestic business is concerned. International business reported de-growth of 6.5%. Seeds business generated revenue of INR 24 crore during the quarter. Our placement for vegetable seeds has been moderated due to sales reorganization, which we spoke about earlier.

EBITDA for the quarter stood at INR 53 crore, as against INR 67 crore generated during the same period last year. EBITDA margin stood at 8.5% as against 10.7% last year. Gross margins are largely protected. Our actions in H1 to liquidate the high-price inventory and also shorter procurement cycles going forward have helped us to largely mitigate the impact at gross margin level. However, EBITDA margin got impacted due to higher marketing and demand generation spend. As you would appreciate last year, our activities were somewhat suppressed due to COVID. There was also a one-off cost of INR 4.5 crore, recognized for a demand notice served on us with a retrospective basis for a few godowns by Bombay Port Trust. We are contesting this demand. PBT has got impacted by the increased depreciation charge for the newly capitalized assets, especially of our formulation plant earlier this year. Further, higher interest expenses and lower other income has reduced the profit. Profit after tax for the quarter stood at INR 23 crore as against INR 40 crore during Q3 FY '22, lower by 43%.



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Moving on to business-wise performance; domestic business operated under a challenging environment. Delayed sowing season owing to extended monsoon, coupled with high channel inventory impacted volume growth for the quarter. Despite external challenges, we continue to make steady progress in our attempts towards introducing new products, both 9(3) and 9(4) and expect the momentum to continue during the year. Furthermore, these products are targeted towards plugging the crop and regional gaps in our portfolio. The international business witnessed de-growth of 6.5%, albeit on a good base, due to lower volumes amid inventory buildup at customers' end. The company is focusing on improving its product mix by increasing the share of high-margin products and formulation products.

As we had mentioned earlier, one of the strategic priorities for us is to address the profitability of seeds business. We have already merged the vegetables and field crop sales organization. We've also had challenges in some of our earlier promising hybrids, especially in cotton, did not perform as per our expectations. As a result of which we are holding slow-moving inventory, for which we have recognized provision in H1 of the year. We're further reviewing the overall sales plan, in light of the inventory level and also our future development plan and will conclude this exercise by Q4.

A quick word on capex before I hand it back to the operator. As indicated in the previous call, our overall capex for the year would be INR 200 crore. Our effort on working capital optimization is progressing well. Inventory levels have moderated and focus on Q4 will be to ensure good collection.

To conclude, I would like to iterate that the company is taking necessary steps to enhance growth in both domestic and international markets. The focus remains on introducing new products, expanding distribution and establishing alternate source for raw materials to decrease our dependency on China. The company is optimistic that these efforts will lead to steady growth in the future.

That concludes the opening remarks. We can now commence the Q&A session.

Moderator:

We have our first question from the line of Varshit Shah from Veto Capital.



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Varshit Shah: My first question is that on the raw materials side, are you seeing a moderation in a.is prices, as China is ramping up production due to unlocking of the economy? And what would that have an impact on our procurement and margin going ahead, directionally?

Sanjiv Lal: That is indeed correct. We are seeing a decline in prices of a.is as well as intermediates. Of course, as these prices are coming down, we will see some amount of margin pressures while, of course, we'll try and get the best price based on the competitive situation in the market. But yes, to answer your question, the prices of key materials are coming down, including some of the intermediates.

Varshit Shah: And sir, because of this destocking happening on account of lower prices, the whole channel is destocking in anticipation for the next batch of products. So are you seeing, that as the industry is going more credit, both in the B2B and the B2C segment to maintain sales, is that something which you are observing at the industry level?

Sanjiv Lal: So, I will desist from talking about what others are doing, but our own understanding is that the inventory levels are tracking much higher in the market, and there will be pressure on collections. That is why Subhra has called out, there is a specific focus that we'll be doing on collections, because there is high inventory. Liquidation has been on the lower side. There will be pressure on both pricing as well as collections, as various companies will be looking at liquidating their market inventory.

What we had also mentioned is that, at the end of Q2, we had indicated that our own inventory was on the higher side, because of the way the monsoon was playing out at that point in time. But we have specifically worked towards ensuring that our market inventory is moderated at the end of Q3.

Moderator: We have our next question from the line of Viraj Kacharia from Securities Investment Management Pvt Ltd.

Viraj Kacharia: Just have three broader questions, first is on the domestic business. If you can just dwell a little bit in terms of the inventory, both for us and the industry. So which segments or molecules, you've seen this inventory being high relatively.



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And in relation, when we say 6% to 7% growth in domestic for us in Q3, in relation to the market, how would have that grown? So any perspective on the overall market performance and our margin in domestic, because I think in international business, we took some hit in terms of provisioning and price corrections being more severe there. So just kind of have a few questions on the domestic side to start with.

Sanjiv Lal: See, on the domestic side, we will be seeing some amount of price correction, which will be there. The inventory levels are high, because the pest infestation has also been on the lower side. So there is high inventory level on that account.

Subhra Gourisaria: Margin for domestic business are largely in line with the previous year. So we're not seeing a compression in margins, and here our efforts in terms of pushing high-mix products have helped specifically in terms of Gross Margins. On IBD we have not taken any provisions. The impact is because of the overall market being competitive in terms of pricing pressure.

Viraj Kacharia: And sir, the question on domestic -- how has the overall market grown? And when you say inventory is higher, which molecules or segments these are high?

Sanjiv Lal: The domestic market, our own assessment, as the growth has been fairly sluggish, of course, since Rallis is the earlier companies to be reporting results, we really don't know what has happened, what others will be reporting. But our assessment on the ground is that, the growth has been fairly sluggish, largely driven by lower consumption, lower application of agrochemicals.

Viraj Kacharia: And just one more question was on the international side. If you look at the commentary of all the major agro-chemical companies globally, they point to a very robust volume and traction, overall business traction for them in major markets. So when we say that we've seen overstocking and inventory correction happening, are these specific to certain molecules say, for example, like Metribuzin or Acephate, or any of those specifically? And is it just in certain regions or pockets where this is a pain point, how do you see that?

Sanjiv Lal: So I think the pain point will be for specific molecules. For example, I'll just give you the example of our own, Hexaconazole, which is largely a molecule that we sell in China and Southeast Asia. There we have seen very little demand coming



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from that particular a.i. So we've had a lot of challenges in placing our Hexaconazole in the Southeast Asia and China markets as well. So we are seeing some correction which is happening, as the consumption is happening and the inventory levels are coming down. So that's why we are expecting maybe from Q1, we will get back on to a good track, as far as molecules like Hexaconazole is concerned.

As far as Acephate is concerned, there is a good demand. Of course, there is a lot of pricing pressure, which is coming from the customer end. But otherwise, the demand has been good, our plant has been running practically at its full capacity. And even Pendimethalin has been tracking okay in terms of overall demand, but there is some slowdown, which we are seeing. And Metri, on a nine-month basis also, we have seen the demand coming back.

Subhra Gourisaria: For nine months period, we will still clock 31% growth in international business

Viraj Kacharia: In the Metribuzin, how has the price trend been like? Has it settled down now, or if you can share any perspective on demand- supply economics in Metribuzin?

Sanjiv Lal: Yes. The Metri prices are certainly coming down and the key starting material prices have also come down. So, both of the prices of the finished a.i and the key starting materials are tracking in the declining trend.

Subhra Gourisaria: Spreads will remain more or less in a similar range

Moderator: We have our next question from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Just a couple from my end. One is with regard to the inventory position. So compared to normal levels, would you say the inventories are still high in the domestic as well as export markets? And also, while in India, we understand that the high channel inventories are attributable to the erratic rainfall and low pest infestation, what exactly is the reason for the inventory buildup overseas? What has led to the slowdown in demand over there, if you could please characterize that?

Sanjiv Lal: So the inventory level for our molecules in the international market, Abhijit, there has been some pushback that we've been getting, as I mentioned, on Hexaconazole from the Southeast Asia market. And as far as the domestic



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situation is concerned, I think I've already answered that, where we believe that the inventory level is on the higher side, largely driven off lower consumption of these agrochemical formulations in the domestic market, because of lower pest infestation.

Abhijit Akella: Do you see this inventory, a rather weak demand in the international market, as more of a temporary phenomenon because of falling prices of agro-chemicals, or is it something else related to do with, say, the weather conditions?

Sanjiv Lal: No, Abhijit, I think overall, there is no slowdown in agriculture. Perhaps what has happened is, some of the customers have built up inventory, and also because they also had their financial year closing, there could be some destocking that they have also been wanting to do, before they again start the procurement cycle. This could be one of the reasons. There were, of course, some drought conditions in certain markets, but that is not impacting to that extent, on the overall demand.

Abhijit Akella: Just one last quick thing for Subhra, if I may. The gross margins have improved significantly on a quarter-on-quarter basis sequentially, almost 500 basis points, it seems. So what could have driven that? And do we see this as the new normal going forward for succeeding quarters?

Subhra Gourisaria: Abhijit, there are two factors. See, one, gross margin, as I said, because we were liquidating some of the high-priced inventory in Q2 impacted the Q2 margins, when you see in comparison to Q3. Also, we had recognized provisions for slow moving stocks and inventory. Q3, we have been able to largely protect our gross margins through pricing actions. Now it's difficult to say whether the margin levels will sustain, because we will also need to be watchful of how the market dynamics work out, both in terms of input raw material and future pricing by competitors.

Moderator: We have our next question from the line of Yogesh Tiwari from Arihant Capital Markets.

Yogesh Tiwari: Sir my first question is, are we seeing any increased business environment in Northern Europe, basically the Benelux region? And if you can share some color around that, in terms of volumes and pricing in that region?



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Sanjiv Lal: Actually what is working well for us is that, two of our products have got, what is called technical equivalence, Metribuzin and Pendimethalin have got technical equivalence in EU and on that basis we are going to be adding more customers. We have already secured some small shipments from customers, both in the UK as well as in the EU region. So for us, there is a good development as two of our products have got technical equivalence.

Yogesh Tiwari: And we expect this to continue in Q4 and coming quarters as well for Northern Europe?

Sanjiv Lal: Yes. For us, it's going to be a positive development because we have been waiting for some time for this technical equivalence. So this opens us, gives us the opportunity for new customers for these two important products in our portfolio.

Yogesh Tiwari: And sir, anything related to the current gas environment because of the conflict, the prices have increased and therefore, the local players are importing more from India and other countries. So is there anything connected to this as well? Any demand you are seeing from this driver in Northern Europe?

Sanjiv Lal: Yes we had seen some demand. Basically, demand for certain of our chemicals, which was coming because supplies from Europe into other markets had reduced because of the gas related issue. So we have seen some demand for some of our chemicals happening on account of that. But that was more for supply to the domestic market, not for the international market. And there is a registration process that is required before we can supply into new markets.

Moderator: We have our next question from the line of Alok Ranjan from IIFL AMC.

Alok Ranjan: Sir, just wanted to get clarity on the impact of the lower a.i prices in exports market. You mentioned that the demand for the product was lower. So, was it low due to the volume that the international business has not done well? So my question is, do you see the realization impact to come in coming quarters? And also, for a company like Rallis and other companies, which might be having distribution in the international market, how the impact is different in case of prices going down if you can elaborate on both the two?



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Sanjiv Lal: Certainly, there is some pressure coming because of the declining prices of starting materials and a.is. There is going to be pressure on the selling price. But one of the things that we had done in the last couple of months, is to be more moderate in our planning and sourcing of the starting materials. So that, to some extent, is going to help us in terms of our margins.

Subhra Gourisaria: So we still have some carry forward pricing, which is there in Q3. But what we wanted to highlight was, the prices have started to taper in terms of key starting raw materials, which will soon start reflecting in terms of NRVs. What we'll try to sustain is the spread because the input raw material is also going down, but it will take some time, depending on the inventory levels.

Alok Ranjan: And second clarification was that, I assume that we are selling to dealers and distributors there, and we do not have the distribution presence of our own. So for companies like Rallis and other companies, which might be having distributional structure, is there a difference only in the visibility that you can get in terms of the product availability, someone who might be having their captive distribution structure, will they be having better understanding of the demand or are there more differences that happen?

Sanjiv Lal: Our customers are largely not distributors directly, but they are basically companies who do the formulation and they will then distribute the formulation in their respective market. Apart from Africa, where we go through distributors, for Brazil, North America and the business that we do in Europe, it is largely to the main customers. Southeast Asia is also through distributors. So we do get a fairly good insight as to what are the inventory levels and all. And if you had joined us in the Q2 call, we had indicated that there is going to be some pressure on off-take during H2 for our exports business. We had, in fact, talked about this.

Alok Ranjan: Just one last question on the new product launches in the YTD FY '23. So there are three products that you have highlighted, the 9(3) products, especially the Pendimethalin, and the Metribuzin, which individually, are bigger products. So apart from the combination products that we are coming up with, there are two more. So could you highlight on what is the expectation we are having from this product going ahead?



Sanjiv Lal: So the three products that we have launched, one, of course, as you pointed out, is Pendi plus Metri, this is Daksh Plus. This is a wheat pre-emergent herbicide. So we had introduced this product for the current season. This is expected to be an important product in our portfolio going forward. The other two products, the technicals are from our partner company, Japanese companies, so these are very-very innovative products. One is the product for White fly, the other is a fungicide, which we have also launched. So these volumes will build up. There's a lot of ground level activity that we will be doing in the kharif season, especially for the other two products, not the wheat herbicide, because that season is over for us for the year. We expect a good traction. We are working on securing the a.is from our Japanese partner for that.

Moderator: We have our next question from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the volumetric growth, both in the domestic and export market, given your commentary suggested that there's still elevated inventory in both the markets. What could be your thoughts from a, let's say, when should we see a positive growth there, more directionally?

Sanjiv Lal: As far as the domestic market is concerned, rabi is going to be a great season because, for all the right reasons, the acreages are up by almost 4.5% for multiple crops. There is no issue in terms of water availability. But then of course, we've got a kharif season, which is coming up. So we remain extremely positive on the overall demand for agrochemicals. Of course, it is subject to the weather conditions and pest infestations, which will impact the consumption. But that, of course, we will see how that plays out.

As far as exports business is concerned, while we did see some slowdown in terms of off-take during Q3, we expect the off-take to be back to the normal level, towards Q1 of next financial year. Although the prices may be on the lower side, we do expect the volume growth to be at a level of about 3%. I'm talking about overall agrochemicals volume growth in the global market is around 3%. The prices, of course, would have settled at a lower level compared to the pricing that was there during the calendar year FY '22, because the prices were highly elevated.



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Ankur Periwal: And during this transition, wherein higher prices get normalized to a lower one, will there be a hit or impact on our earnings, or will we be able to manage our supply chain efficiently and even on a quarter-on-quarter basis, the margin hit should not be there?

Sanjiv Lal: Yes. So that's what I have mentioned. So we've also been a little more judicious in our sourcing of raw materials, because it's a declining market. We would not like to be seen holding high-priced inventory. So we've also been taking slightly more judicious calls on our procurement. That being said, in the month of December, you would be aware that, the way China had announced locking of the economy, there was a certain anticipation that it could lead to significant issues in terms of logistics and supply chain. So in the month of December, we have indeed taken a slightly more aggressive position on the key starting materials that we need.

So to that extent, the prices have been more or less stable. So it's not that we've been buying very expensive inventory. Prices have remained more or less at the same level during December, and even what we are seeing now. So it's not that we have ended up buying very expensive inventory. So we don't expect that to have a negative impact on our margins.

Moderator: We have our next question from the line of Akul Broachwala from IIFL Securities.

Akul Broachwala: Two questions from my side. Basically, this capex guidance that you've given of INR 200 crore. So earlier, you had mentioned that capex would be somewhere around INR 250 crore. So are we kind of witnessing some slippages in terms of capex? And where are we in terms of commissioning of MPP plant? And secondly, you mentioned that there are two new products, for which you are awaiting regulatory approvals. So how sizable are these products, and whether these products are going to get manufactured from our existing lines, or are we anticipating any further capex for these specific molecules?

Sanjiv Lal: So the overall capex, yes, that is right, we had indicated that we will have a capex between INR 200 crore and INR 250 crore. We are currently outlooking that we will be able to get to about INR 200 crore. This is largely towards the multipurpose plant that we are building out. The project is running a little behind schedule, because of certain materials that we have been struggling to get on



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time. But currently, we are out looking the commissioning of the plant within this financial year itself.

As far as the products that I alluded to, which are awaiting regulatory approval, both of them are small opportunities initially. So we will see only small revenue coming from there. One of these products is to be produced in our multipurpose plant, perhaps towards the end of FY '24. That depends on by when the regulatory approval will come. And one is a product that we will be formulating for one of our customers. All going well, regulatory approval being available, we should do that in the next financial year. So these are things that are small building blocks for our contract manufacturing business, which will grow over a period of time in terms of the size.

Akul Broachwala: And specifically for MPP, are we targeting any specific customers, wherein we tie up a few supply contracts with them? Or here also, we are expecting some bit of regulatory cycle/approval cycle to play in, and because of that, probably the revenue contribution might delay even further. So are we looking at those kind of delays as well?

Sanjiv Lal: Certainly, we are going to have to go through a regulatory process. And while we are also looking at doing some intermediates, largely, we've been working on a.is only for some of these customers, which will require regulatory approval. So it will be maybe two years to three years before we will be able to have any significant revenues coming from the contract manufacturing opportunities that we are building out.

Moderator: We have our next question from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: Can you give us the value of exports you've done year-to-date this year compared to the year-to-date last year, and for the third quarter in terms of rupees crore?



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Subhra Gourisaria: International business, as I said, has done 31% growth. So the base sale was INR 574 crore. And this year, we have clocked INR 751 crore till now. We have called this out in our investor deck as well.

S. Ramesh: And in terms of your MPP business, can you indicate, at full potential, what's the kind of revenue you can generate or an asset turn, if you're investing INR 250 crore, would it be fair to assume about say, INR 400 crore to INR 500 crore revenue over the next three years?

Sanjiv Lal: Ramesh, perhaps we'll keep this answer for another meeting. Currently, we are out looking one of our own a.is to go into the MPP to start with. And we're also looking at another two contract manufacturing opportunities to be in this plant. So maybe six months from now, we will get a better fix on answering your question.

S. Ramesh: And just one last thought, you're looking at the next two-three quarters being a little bit of a downturn in terms of pricing. If you look at FY 2021, prices have stabilized, assuming that you took 5% volume growth. Would it be fair to assume another 5% of price growth and say 10%-12% overall revenue growth, once markets are stabilized for Rallis, on a full year basis?

Sanjiv Lal: So, the question is you're asking is that, what is the kind of volume growth and the price growth that we can expect. We are really looking at driving our overall growth. So whether it is from our domestic market, international market, or from our portfolio of crop nutrition. So all these levers we will be using for driving growth. So we would not like to specifically call out what is that percentage growth that we are driving for.

Moderator: We have our next question from the line of Darshita Shah from Antique Stockbroking.

Darshita Shah: My question is regarding the seed provisioning. I think Subhra mentioned in her opening remarks, that we will be doing an exercise to identify the provisioning for the seed. So was that to do with identifying how much more provisioning do we require? Or was that to do with providing the actual provisioning number for the seed business?



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- Sanjiv Lal:** So typically, in Q4, we start planning for the processing and packing for our seeds business. And of course, it goes through a lot of quality checks. And as you are aware, we are sitting on considerable market returns coming out of FY '21, especially on the cotton side. So there will be a complete analysis done on if any further provisioning that may need to be done.
- Subhra Gourisaria:** Darshita, typically as an annual exercise, we look at the entire impairment process in Q4. This is where in this year, we will see what the future saleable plan is. We will conduct this exercise and finish by Q4.
- Darshita Shah:** So I think maybe in the second quarter, in the conference-call you had mentioned that, there might be some more provisioning happening for the cotton seed specifically, in the second half of the year. So do we expect something coming in for Q4?
- Sanjiv Lal:** Yes. I think there will be certain additional provisioning that may be called for. But we will get a fix, once we've done the entire process.
- Darshita Shah:** Yes. So I wanted to get an understanding on the rent provisioning bit. I think we have made a provision of about INR40 million, during the current quarter. What will that be like for Q4? Will we be providing for the entire INR 44 crores -- on the provision for the entire INR 44 crore in the rest of FY '23?
- Subhra Gourisaria:** We have got a demand notice, as we have mentioned in the notes, of INR 43 crore. This is for the period 2012 to 2022, which we have got it on a retrospective basis. So what we have provided is the management's estimate of the realistic amount that would be required to settle the obligation till December '22. So in future periods on similar run-rate we'll be providing. We do not expect to provide the full amount at this juncture.
- Moderator:** We have our next question from the line of Somaiah V from Spark Capital.
- Somaiah V:** First question, you did mention that on a Y-o-Y basis, the domestic revenue growth benefited from price hikes. On a Q-o-Q basis, was there any price hike? And second, given the RM price trajectory, the cooling off in RM, so the price hike part, is it largely done? Have we come to a point where the RM softening



has happened and then any further price hikes are not required? That's my first question.

Sanjiv Lal: So on the domestic business side, we did mention that it's been largely price growth. So these are the price corrections that we have taken during the quarter. And of course, the pricing has to be in consonance, with what is the competitive situation at that point in time.

Subhra Gourisaria: It will be largely residual carry-forward pricing. The in-quarter pricing will be very low. When it starts anniversarizing is that price growth will come under pressure,

Somaiah V: So my other question was, because the RM prices have already started to cool off maybe last couple of quarters. So are we at a point where further price hikes are not required? So the full impact of higher RM is something that is now gone by.

Subhra Gourisaria: We'll go by replacement pricing. We don't go by purchase price, and we'll have to keep the pricing relative to the market. And it's not that, across the portfolio, we'll have price drop or price increase. So depending on which pockets of the product, where is our pricing strength, what is the competitive scenario, that's how we take the pricing. But largely, the price hikes have now come down, and in very few pockets, we will see price hikes now coming through.

Somaiah V: The other question is, the sales return, you said the domestic front that had an impact. Any color on what is the extent, and if not for this or on a normalized sales return basis, what would have been the volume impact in the current quarter on the domestic front?

Subhra Gourisaria: It would be difficult to call out this number very specifically because we have made provisions for sales return, considering the historical run rate and management judgment. So I would say that, yes, the sales returns are higher, and this is especially as we called out, is in the Eastern market, where you know that there were a lot of vagaries of monsoon.

Moderator: We have our next question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Sir, first question is during the first 9 months, can you split up what was the volume growth in domestic and international market?



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Subhra Gourisaria: International market, our growth was 31%. I would say it's fairly balanced between volume and price. So we can say that it's a good growth. In domestic market, our growth was 14.6%. Here price growth constitutes a major part of it but we have got volume growth as well in low single digits.

Rohit Nagraj: And second question is, we mentioned about the seeds business re-organization, on the vegetable seeds front, cotton-seeds front. So when do you expect that this exercise will get over and we'll see the normalized performance from the seeds business?

Sanjiv Lal: So Rohit, I'll just go back to what we had said at the Q2 call, what we had mentioned is, that we are going to be subsuming our vegetable seeds business into the field crop business. So there is no separate line of business for vegetable seeds. It is now all part of the seeds sales organization. So that exercise has been completed.

And what we had also done is, just to avoid any serious issue on market returns on the vegetable seeds side, we had also moderated the placement of vegetable seeds. So therefore, when you see our revenue on the seed side, it is reflective of the lower placement of vegetable seeds. That being said, the work is complete. The sales team harmonization has been completed.

Rohit Nagraj: And just small clarification, on these slow-moving inventories, Subhra explained that the decision will be taken in Q4. Once these slow-moving inventories decision in terms of provisioning is taken, from Q1 FY '24, we'll have a normalized seed business, where-in based on the demand-supply situation, the returns will come, and we will not have to take extra provisioning for any excess inventories?

Sanjiv Lal: That is our intention, Rohit. We want to just make sure that the business is back to its normal flow. And we had also mentioned in our earlier call that, we are going to be looking at our seeds business very closely. So some of the aggressive growth plans that we had set out in the previous year, we had moderated it. And you are aware, that the seeds cycle tends to be almost two to three years, starting with parent seed production, hybrid seed production. So we had reduced the acreage that we had taken up for the potential growth in our seeds business. So we had moderated all of that. So with whatever corrections



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that we need to do during Q4, we would be on a normal sales cycle business from the upcoming kharif, that is Q1 of next year.

Subhra Gourisaria: We will do a complete exhaustive exercise. So looking at complete inventory levels and even doing a proper impairment testing. So that from Q1, as you rightly said, we are going by the flow of market demand and supply.

Moderator: We have our next question from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: Firstly, I would like to have some clarity on earlier participant's question about the two contract manufacturing products. So approvals are pending on our side or from the customer end, and have we worked on the pilot project as of yet?

Sanjiv Lal: Yes, The pilot was -- all approvals are in place. As far as we are concerned, the process is now at the customer end for the regulatory approval.

Rohit Sinha: Okay. Thank you for the clarification. So one question from my side is on the biologicals side. So on the biologicals space, how we are placed and how has the market outlook been as of now, especially when government is pushing for more towards this bio-fertilizers side?

Sanjiv Lal: So, this is actually an important part of our own growth strategy, growth plans for our overall domestic business. And as has been called out, we have seen a good growth even in Q3, while the crop protection may have been a bit subdued, the crop nutrition category, which includes things like biologicals, micronutrients and the soil conditioners. We are collectively calling it as a crop nutrition category. So we are seeing good traction for this category. We've also been adding newer products, which have been well received, including some of the bio-pesticides. So we are continuing to add more products into this category as well.

Rohit Sinha: Any contribution percentage we are targeting in the next two, three years at 10%-15% kind of number?

Sanjiv Lal: So one of the things, that we have articulated and that is also for our domestic crop protection business, we believe that our network and our sales organization, will help us deliver better than the average for the industry, whether it is crop protection or crop nutrition. So if the crop nutrition category is growing at an average of 15%, our objective is to grow at a rate which is higher than the



average of the industry. So in a way, you can take that as a guidance for our own growth plans, for both domestic crop protection as well as domestic crop nutrition.

Rohit Sinha: Secondly, we have been anticipating to expand our export business from 35% currently to maybe 40% in the next few years. So given the current situation in the Europe side, any revision there would be possible or are we still looking at the same number?

Sanjiv Lal: So I think it may be too early for us to be revising our stance on this because this is all linked with what we are referring to internally as our long-term strategic plan, which includes the capital investment program for building capacities. So largely for our existing product category, we have done the de-bottlenecking to increase capacities, and we will invest further for the products that we believe we still have some headroom for growth.

And as far as the expansion of our exports portfolio is concerned, there, we've got what we call the catalogue products, which is the Pendi, Metri, Hexa and that category, for which we are adding new patent molecules into our portfolio. We had called out that Difenconazole is the next product that we will be adding to our catalogue of export products. Likewise, on the contract manufacturing, while we have signed up, three contracts for the contract manufacturing business. We have a number of projects which are currently at various stages of lab, as well as kilo and the pilot stage as well. So these will also in due course of time, convert into firm contracts, price contracts. So this is playing out, I would say, reasonably well, and we will build additional capacities in due course of time. Our first milestone is to get the multi-purpose plant commissioned and its capacity utilization fully in place.

Moderator: We have our next question from the line of Rohan Gupta from Nuvama.

Rohan Gupta: First question is on our domestic business growth, which is roughly 7% for the quarter. Would it be possible for you to give some breakup on the volume and price led growth?

Subhra Gourisaria: Rohan, volume was flat, and large part of the growth is price driven.



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Rohan Gupta: And similarly, in the international business, this is 7% downfall. Is it also led by the price drop?

Subhra Gourisaria: No, de-growth is more volume driven. There's still some pricing, but it's largely volume driven de-growth.

Rohan Gupta: And any particular reason for the international market being weak in the current quarter, while on YTD level, we have still done pretty decent, so is there any one-off which has impacted the international event volume?

Sanjiv Lal: Rohan, perhaps you joined the call a little late, but I think we had answered this question. Even in Q2 when we had our quarterly results call, we had mentioned that we are seeing some pressure on off-take of our category of products, especially the Hexaconazole and Pendimethalin. So we had actually expected a slightly slower growth in the H2. I would say that this is in a way, playing out. We expect our volume growth to be back on track.

Rohan Gupta: Sir, pardon me, because I joined the call late, so I would have missed out on those numbers. Just a last thing from my side, is on our long-term strategy, which you were just talking about. So there you see that the capex led growth and the company will continue to focus on capex and basically building the capacities in intermediates.

Sir there, I think we are still lacking in terms of the growth visibility, on the products and the product pipeline, and also in the CRAMS business any new customer additions or new product development. So sir, though we are talking about in a long-term strategy, we will invest in that business, is there any product development in the customer confidence, you are gaining, and how much investment do you see that, over next 2 to 3 years, we can invest, we can make in CRAMS or building up the intermediate business for exports?

Sanjiv Lal: So I did mention that, one is that we've already got 3 small contracts signed-up. The other is, a number of our opportunities are at various stages of development, either the lab or the kilo scale or the pilot scale. That is the next level of opportunities which will get converted into agreements and contracts. And the next level is number of visits by both Japanese as well as Europe-based



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companies, to our facilities have taken place, where we are positioning ourselves as a partner of choice for both intermediates, as well as the actives.

So we do expect this contracts list to start growing, as we move forward. As of now, we've got three contracts that have been signed up. We expect to progress along that over the next couple of months. As far as the new product introduction, what we are calling our catalogue products, is concerned, Difenconazole, we will be commercializing as the first product from the multi-purpose plant. We've also called out that every year, we expect to add at least one new active ingredient into our catalogue product.

Moderator: We have our next question from the line of Jasmin Kaur from Fortuna Investment Advisors.

Jasmin Kaur: So my question is on the receivables, which had increased substantially. So is there any relief on that front? And what is the situation now? And also I wanted to know that, why exactly the receivable position had increased so much? Is it more on the domestic side or also on the international side that we are seeing this increase?

Subhra Gourisaria: There were two parts to it, I'll dissect domestic-international first. Since our international business was growing, and typically credit period there is longer. That has caused one impact. Secondly, we also mentioned about the fact that we have stopped discounting for one of our key customers, which is where the international receivables have gone up. Nevertheless, there is no overdue in any of our international customers.

Moving to domestic parties. Yes, there was collection which had got stuck up because of kharif rainfall. But we are now working towards how do we drive this collection, and we've seen good progress last month. We hope to get more normalcy around it in Q4. This is a focus area for us.

Jasmin Kaur: So Q3 would have been lower than compared to Q2?

Subhra Gourisaria: Not in receivables perspective, because our international customers, there were some payments which had not come in by December. But yes, Q4, January onwards, we have started seeing the trend reversing.



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Jasmin Kaur: A small question on the contract manufacturing, I understand the other two contracts that you have, and they will achieve a meaningful scale in 2 to 3 years, because registrations are pending. But on the PEKK revival, is there any meaningful impact we will see on the numbers on account of PEKKs in the coming quarters?

Sanjiv Lal: I mentioned that some business we are expecting to do during Q4 itself. This is extremely encouraging, because you'll be aware that for the last 2 years, the plant has remained idle. So the plant has been restarted, and we are going to be exporting some of the PEKK that is, the order that we have received. So this is a positive sign. In fact, since it goes largely into the airline industry, we are seeing a revival of the airline industry itself. So I believe that maybe in the next six to nine months, the plant should also be back to a good capacity utilization. But we are still awaiting the next year's plan from our customer.

Moderator: Thank you. I would now like to hand the conference over to management team for closing comments. Over to you, sir.

Sanjiv Lal: Thank you, and thanks everyone for the questions. And I hope that we've been able to provide necessary clarity on the results. Q4 is a smaller quarter, and our larger focus will be on planning for the next upcoming kharif season. We expect international business to start picking momentum from Q1, as I had mentioned. We will continue to pursue all efforts to drive maximum utilization of our plants and get volume-led growth, with price growth coming under pressure.

And as far as the seeds business is concerned, we are focused on developing a clear roadmap for the seeds business, and will also conclude the review of inventory and any impairment that may need to be taken. So the business is back to usual from the upcoming kharif. Our long-term strategy for driving competitive growth remains on track, and we will keep reviewing all opportunities as relevant. With that, I'll hand it back to the moderator, till we meet three months from now. Thank you very much.

Moderator: Thank you, sir. On behalf of Rallis India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.



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