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Q1-FY21 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited Q1 FY21 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited Q1 FY21 Earnings Conference 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 statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in disclosure in this regard is available in the result presentation.

I now invite Mr. Lal to open proceedings of the call. Over to you, Sanjiv.

Sanjiv Lal: Thank you, Gavin and good morning to everyone. Thank you for joining our Q1 FY21 Earnings Call. As mentioned by Gavin, Mr. Nagarajan, Ashish Mehta are also joining me on this call.

Let me begin the discussion with a quick overview of the on ground situation following which I will discuss Rallis specific developments and then I will request Ashish to walk us through the financial highlights.

To begin with, while the overall uncertainties and challenges surrounding COVID-19 pandemic remain, on ground though things have started to improve for our sector when compared with the previous quarter. The intensive effect of the Government both at the central and state level in opening up the economy in a staggered manner has in a way helped ease the situation. The logistical challenges which were prominent during the previous quarter are now getting addressed and labor issues have to some extent eased. While as I mentioned earlier challenges still remain.

I believe that most of the businesses have adapted to function in this new COVID business environment. Now talking about the sector where we operate, agrochemicals, on an overall basis things have been largely good. Farmer sentiments and liquidity levels are high on the back of strong Rabi season and remunerative prices for agri products.

Water storage at reservoirs are at a healthy level, timely onset of the monsoon along with the steady progression so far has further buoyed the sentiment. The combination of the above factors has resulted in early start of the Kharif sowing. Logistical challenges as earlier mentioned as well have now subsided which has ensured better product availability in the system.

Further the situation at ports in terms of raw material imports clearance especially from China has been improving. Moving on to Rallis specific developments, we have started FY21 on a positive note as can be seen from our Q1 numbers. While Ashish will talk about the numbers in detail, let me just highlight the headline numbers.

On a consolidated basis we have delivered a topline growth of 6%. EBITDA growth of 35% while PAT has grown 38% during the quarter over the previous year. As mentioned in our previous calls our focus will be on maintaining the growth momentum by improving our product mix, launching new products and widening our product reach across our business segments. In addition, we have also been able to improve our cash position through a strong collection.

In terms of new product launches, we introduced six new products in FY20, three of which were 9 (3) products while the others were co-marketing. While the initial response for the products was favorable we should see the full impact of the same during the current year. Our domestic business on an overall basis grew by 26% over the previous year and this is the domestic formulations business.

We are working towards introducing new products during the course of the year which should help maintain the revenue momentum. Moving on to the seeds business; the timely onset of the monsoon has resulted in good pick up of agricultural activities despite difficulties on logistics in the earlier part of the quarter, we were able to place our products in the consuming center.

Initial assessments indicate a lower than expected off take of our cotton product while we continue to maintain a strong position in paddy and millets. On an overall basis our seeds category has shown a minor 3% growth over the previous year. There has been some change in the crop pattern as we witnessed some crop shift towards groundnut and soybean away from cotton especially in Gujarat and Maharashtra.

Going ahead as indicated earlier we are constantly working towards improving our Rabi portfolio which would help in maintaining the momentum in the seeds business throughout the year. Our International business revenue growth during the quarter remained flat due to pressure on Metribuzin sales which continues to be impacted by inventory overhang in key markets.

A quick word on CAPEX. We have completed phase 2 expansion of Metribuzin. We are also, after some initial delays, on track and hopeful of commissioning the new formulation unit in Dahej chemical zone during the year. We are also setting up a state of the 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.

To conclude, I would just like to reiterate that the sector as such is relatively well placed in terms of demand visibility. Further with logistic and labor issues waning, we believe the business is well placed to deliver consistent growth over the coming years. At a company level we have been undertaking multiple steps in recent year towards reviving the growth, addressing the pain points and consolidating our areas of strength.

Some of the recent initiatives are now delivering results - strong product pipeline and launch of new products. Further widen distribution reach and also revised trade terms has worked well for us, improving our overall cash position. Lastly, the proposed CAPEX which we are undertaking would help provide the necessary manufacturing capacity for domestic and international business over the coming years.

Our efforts towards strengthening the seeds portfolios will help address the concentration risk at present and transforming into a matured balanced business going forward. With that I will now had over to Ashish for the analysis of the financials. Over to you, Ashish.

Ashish Mehta: Thank you, Sanjiv. Good morning and welcome all to the earnings call for Rallis' Q1 FY21. I hope you all are safe and healthy.

Before I get into the numbers I wish to inform all that there is no material difference between the standalone and consolidated numbers, as consolidated financials includes financials of Indonesian JV PT Metahelix which has no transaction during the quarter except for a small amount of administrative cost.

Now the results:

To summarize, the overall financials, revenue at Rs. 663 crore grew by 6% over previous year. EBITDA at Rs. 128 crore grew by 35%. Profit before tax at Rs. 120 crore grew by 38% and profit after tax at Rs. 92 crore grew by 38%. It will be pertinent to point out as was mentioned in the investor's docket that in the current year we have opted for a lower tax rate and hence the adjustment of the PAT is looking little higher compared to previous year.

The effective tax rate we have opted for 25.14% tax rate there as against the normal tax rate of last year. Coming to the domestic crop care business, overall revenue was at Rs. 402 crore registering a growth of 11% over previous year. And the seed division revenue at Rs. 261 crore registered a growth of 3% over previous year.

Within crop care the domestic formulations business revenue was at Rs. 215 crore registering a growth of 26% over previous year. The majority growth was achieved due to volume. However, we indeed witnessed pricing pressure in some of our branded products. Crop nutrition also witnessed a healthy volume growth over the previous year. International business clocked Rs. 143 crore and registered a modest growth. However, we saw volume growth in our B2B business which was largely driven by some of our molecules Acephate and Pendimethalin Technical.

Metribuzin continued to be under pressure both in terms of demand and pricing. In contract manufacturing we saw a de-growth over previous year due to deferment of some of our orders to Q3 of the current financial year. In the seed division the revenue was largely impacted because of lower than expected liquidation of cotton. Primary reason being crop shift by the farmers. However, maize and bajra saw volume growth over the previous year.

The company continued its focus on receivables and cash flows and is confident of meeting its fund requirements for various CAPEX programs through internal accrual only. However, due to present conditions, collections in some areas still remain a challenge and as a prudent measure the company has made an additional provision of Rs. 3 crore towards doubtful debts which is more than the Expected Credit Loss model suggested by the institute.

In the current year the company has opted as I said earlier for a lower tax rate. The effective tax rate was 23.53% as against 30.43% in the previous year. Our CAPEX program got impacted due to the present lockdown. Some of our major CAPEX will now see a delay of 2 to 3 months and as Sanjiv mentioned the Dahej chemical zone formulation plant is expected to start commercial production at the end of Q3 or beginning Q4 of the current financial year.

Thank you. We can now commence the Q&A session.

Moderator:

We have our first question from the line of Viraj Kacharia from Securities Investment Management.

Viraj Kacharia: I just had three questions. First is on the international business, so ex-Metribuzin if you can just provide some color how is the actual volume and value growth trend being other molecules and in Metribuzin what is the kind of price and volume moderation we have seen, so are the spread still attractive for us in that particular molecule?

Sanjiv Lal: Okay Viraj, so on IBD while Metribuzin has been a problematic product for us for the last two quarters and this is due to huge inventory of this particular product in North America, which is our key market. So while Metri has been a problem, we have seen volume growth in our other products that we are exporting, which is Pendi and Acephate, so that is a positive sign. As far as Metri pricing is concerned, this we have also discussed in the past, while the price of Metri is trending down, the raw material for it is also trending down.

So in terms of the margin that we could make on this product I would say that is still intact and there is no concern on that score. Yes, since the price is down so the revenue will tend to look lower than what it would normally have been as we looked at a similar period one year back, but the margins will remain intact.

Viraj Kacharia: Okay the reason I asked this is because if we look at the recent ruling in North America as well regarding Dicamba, which is one of the alternative substitutes for the molecule, given the fact that we had a something like Rs. 50 crore to Rs. 55 crore of deferred sales from Q4. One would think that Q1 at least international business would have seen some kind of a healthy growth rate. So is the Rs. 53 crore deferred sale is still intact or we see a risk to that materializing and any color you can provide in terms of the whole ban on Dicamba now, how do we see the demand for this particular molecule going forward?

Sanjiv Lal: So, Dicamba is not one of our product, so I will just set that aside, but the possibility or substitution of Dicamba by Metri is something that we are not very clear about and we are also expecting that there would be some benefit that our product would get from that category. But there are number of combinations of Dicamba, which are selling in North America, so which are those combinations with Metri, which could benefit us still remains to be clarified and in any case in the immediate term, it is not that there is immediate stoppage of use of Dicamba.

So the countries will allow working off Dicamba inventories before any ban comes into play, so there will be certainly inventories of Dicamba, which are still available to the farmers in the other consuming markets, but yes we are also hoping that such decisions on products like Dicamba or Glyphosate would have a positive rub off on our category of herbicides, which is Pendi and Metri.

Moderator: We have next question from the line of Sajal Kapoor from Unseen Risk Advisors.

Sajal Kapoor: Just two questions. First one is just wanted to understand the broad-brush approach on the CRAMS scale up opportunity internationally. So if the economies and the chemistry of the molecule match, do we care if the innovator or client is agro or non-agro chemicals? So in other words if the margins are good and we understand the technical complexities would we look at both agro and non-agro intermediate active ingredients or even formulations?

Sanjiv Lal: Sajal, just to give clarity on this issue, in terms of our company we are very focused on agrochemicals. When we say we are focused on agrochemicals it is because we know the customers, we know the business and when we are looking at intermediates, there could certainly be opportunities, which are across different product categories. For example, one of the polymers that we do, which is PEKK, which we do for Cytec has got nothing to do with agriculture, but because of the type of chemistries that we are good at it is a product that we do.

And if for example, Cytec wants us to do two more such products for them, we will do it, but we are not actively pursuing non-agri customers for our intermediates' business. So I do not know whether that answers you question, but certainly if there are certain intermediates because we do intend to get into manufacture of number of intermediates there is a lot of work, which is happening within the company on identifying the correct opportunities and if such intermediates are working across different product categories, then certainly why would we not do that. But our focus is primarily on the agrochemical sector.

Sajal Kapoor: It does, thanks it gives me the flavor, now I was just wondering with the new R&D center coming up it may just add to our capabilities, but yes it is perfectly fine. Secondly sir, regarding the road map for de-risking the supply chain risk, we have a relatively high dependency on China we understand that from the raw material prospective about 55% we take from China directly or indirectly, which results in a moderate supply chain risk obviously for us. So question is are Indian suppliers not capable or they currently do not have the capacity to fulfill our requirements, what is this road map like?

Sanjiv Lal: Sajal, on this subject I think there is a lot of discussion happening between the industry and the government, department of commerce and industries, department of agriculture on how to boost the Make In India, Aatma Nirbhar Bharat and there will be lot of opportunities that will be picked up by Indian companies to expand their manufacturing base to many kind of intermediates or chemicals, which have so far been important into the country. Now, which ones will actually get manufactured in India over a period of time, still remains to be seen.

There are certainly some products which are problematic because of the very high pollution load and many Indian companies may be hesitant to take up such kind of chemicals. Rallis certainly would look at the EHS considerations before we sign up to produce any material, which could be not sustainable to the extent that there may be very significant challenges in dealing with the effluent that is being generated.

So there are a few such chemicals that are being made in other countries, which are able to deal with the environmental load coming from these kind of chemicals, but Indian companies will need to think about it and Rallis in particular will be very, very cautious on getting into chemicals, which have environmental load, which is at unreasonable level.

Moderator: We have the next question from the line of Varshit Shah from Emkay Global Financial Services.

Varshit Shah: Sir, my question is on overall lower sales of herbicides and fungicides Y-o-Y there is some decline in the overall crop care level, so is it attributed to the slowdown in the international sales? Secondly, our portfolio is slightly more skewed towards insecticides and hence I think we expect the Q2 to be better in terms of growth than Q1 because for insecticides Q2 is the peak quarters, so that is my question. Thirdly, on the margins, so we have seen a healthy uptake in gross margins, so is this purely on account of product mix and is this sustainable going ahead?

S. Nagarajan: Yes, I think the observation that you make is very correct that in terms of our portfolio, in our domestic portfolio, herbicides is an area where we need to further improve. Insecticides and fungicides are better constituents of our mix as far as the domestic market is concerned. Internationally of course the picture is a little different. We have a larger component of herbicides and yes it is our understanding that insecticides and fungicides would really be more in demand in Q2.

But having said that I think what has also happened this year is that the season in the Indian market has advanced, so we have witnessed movement of insecticides and fungicides, which is of course largely placement in the month of June. So I think your overall observation is certainly something which is correct.

As far as the margin is concerned yes it is largely a case of mix. It is largely a case of product mix. We have as we had perhaps clarified in one of the earlier calls as well not had any kind of pricing action, which is deliberate to shore up the margin. We have of course corrected the prices where we felt that the market can absorb a little higher prices and also therefore accommodate the cost increases that we have had whether it is from the standpoint of the dollar rate changes or in terms of increased COVID compliance cost whether it is freight cost or whatever the reasons may have been.

But those are all very, very selective and very specific and in fact we have had cases where we have had the price movement in the opposite direction as well. So in short it is not a result of any specific deliberate price increase policy or anything like that, it is a mix-driven factor.

Varshit Shah: Also, I think you have mentioned that there has been an improved realization in the seed segment so is this a one time thing may be some panic in the markets and organized players like us were able to place the products ahead of the unorganized players and hence you could command higher realization and is it sustainable.

I mean going into say next year, this year's season largely is over. But is it something you can assume that we can sustain going forward in next year or it seems to be more like a one time thing this time?

S. Nagarajan: No, I think it is again to some extent driven by the mix. For example, what we have called out for instance in the case of paddy, just to take an example of a better realization. Since the rains have actually come in early, the farmers perhaps have looked for slightly mid late and late duration hybrids as opposed to looking for short duration hybrids, which was really the kind of situation that we had last year, when the rains came later.

So since the rains came later last year, they had to get their sowing done and quickly get the harvest out because the remnant time available after sowing was actually much lesser because then they had to shift to their next crop after the paddy harvest is completed. However, this year the picture was a bit different, people were therefore looking for longer duration, longer maturity crops and as you would appreciate, the longer duration crops typically tend to have a larger yield.

Because there is longer time that is available in the plant stand, the filling of the grain tends to be better and thereby the grain weight what they typically call as the 1000 grain weight, so basically if you take 1000 grains and kind of weigh them, the weight tends to be a little better, which contributes to the overall yield.

Now therefore the choice of products, which go into it, the choice of the hybrid seeds that go into it are skewed towards the longer duration varieties, longer duration hybrids and that because of the fact there is a value proposition finally in terms of better yield there is a price advantage, price premium that tends to happen. So to your question about whether it is sustainable, it actually depends on how the rain pattern is.

What we do try to do from the company’s point of view is of course to have a balanced portfolio between short duration, mid late and late duration, so that we are able to accommodate the fluctuations that can happen from year to year, but it is very difficult to predict how things will be next year or year after.

Varshit Shah: I just wanted to understand if there was 26% growth in the domestic brands business that means other than that, I think the business either was flat the B2B or sort of decline may be marginally. So was there any capacity constraints and you could not service that demand because your B2C demand was higher so you had to divert those capacities there. Is my assessment correct and if yes, what is the plan going ahead?

S. Nagarajan: The growth rate in the formulation space you are right has been higher and that is also the space where the value addition as you would appreciate is higher and that is why you do have a bottom line impact as well, which is coming in.

On the other areas, the growth rates have been lesser and certainly the Metribuzin situation has contributed of course it is a global situation, but in India also there has been kind of moderation in the early phase, which has contributed to some of our institutional business being a little lower than what it was last year. So you are right that even though we had a 26% overall growth in the domestic formulated business, if you were to take the combination of crop care revenues as we are reporting it, which includes of course crop nutrition as well that has tended to be about 11%. Your observation is correct.

Moderator: We have the next question from the line of Aditya Jhawar from Investec Capital.

Aditya Jhawar: Any update that we can share on the proposed suspension of molecules that was in the news and what could be the likely contribution of those molecules for our domestic and export business?

Sanjiv Lal: Okay, overall on India basis it would constitute almost 20% to 25% of the value of agrochemicals and may be about 25% to 30% would be its impact on Rallis I would say. We have a slightly higher impact than the overall country average. As far as the exports of those 27 molecules are concerned, that is now clarified by the Government that there is no issue in export of these products out of the country.

So that takes away one of the key challenges because Pendimethalin, which was included in that list as also Acephate are very important for us and therefore it would have had a significant impact on international business. So that challenge is out of the consideration here, that means that problem has been now put to rest.

The issue now remains on the domestic application of these 27 molecules. There is considerable dialogue that has happened between the associations and the Government and the regulator and it is our understanding that the Government will be constituting a committee to review this decision because it is something that as you can appreciate if 25% in terms of value disappears from a market, which is about Rs. 19,000 crore; you can imagine the impact that will have on the farming community where very popular, very effective products will suddenly disappear from their available products to use and there are no immediate substitutes at all.

For example, for directly seeded rice, which is being promoted in Punjab, the only herbicide available is Pendimethalin, so you can imagine the plight of the farmer who is trying to do a DSR where he does not have access to Pendimethalin. So all these decisions which have been taken need to be reviewed by the government.

And the industry associations are working towards getting a proper resolution and the guidance from our association, which is CropLife India is that there has to be a scientific basis before such decisions are taken. It cannot be on the basis of some particular country banning it, whether it is Saudi Arabia or Norway and then to say that it will not be allowed in India.

Each country has its own requirements of agrochemical depending on the agro-chromatic zone as also on the types of crops that are cultivated. So paddy is not a crop that is cultivated either in Norway or in Saudi Arabia for it to be banned in India. So some of these things I am sure the committee that we are hoping is getting formed will look at and we expect a positive outcome from these deliberations.

Aditya Jhawar: That is very helpful, Sanjiv. My next question is for Naga. Sir, if you can highlight in the domestic branded business we clearly are seeing the effort that you guys have taken. The results of those efforts are very visible for the domestic formulation business. But in terms of seeds, our business in the last few years has not even been able to demonstrate firm growth. What are the points that you have identified and what are the steps you plan to take to mitigate that and when can we see results of these in the seed division?

S. Nagarajan: I think if you specifically look at the first quarter performance, one of the big areas that we are identifying as an area to significantly improve is our cotton. As we have called out earlier we are expecting much larger sales returns on cotton than we had planned or what we had anticipated. Obviously there have been a number of market level factors that have contributed to this also.

As you are aware the commodity prices of groundnut have actually ruled much better and certainly cotton prices and other commodities have gone down, and we have found there is a crop shift that has happened in Gujarat from cotton to groundnut. Similarly if you go to the Vidarbha region of Maharashtra or even parts of Madhya Pradesh, where soya bean has been dominant we are finding that soya bean has done very well this kharif and it has had a collateral impact on cotton.

Apart from these market factors, we also think that we really need to re-examine some of the products that we are offering in the market, although we realize, that many of the cotton players in the market have actually had challenges this year. There are still two or three players we think who have been able to navigate quite well. So one of the important areas that we will really have to focus on is in getting the growth mojo into our cotton business.

But as you would appreciate at this point in time these are all estimates, these are all expectations. We are still in the middle part of July and we will have better information towards the end of Q2 that all the sales returns for all the companies happen to be able to have very, very precise conclusions in terms of what areas we need to focus on within cotton. So that is certainly one of the areas. The second one of course has been vegetable and that is an area which if you recall we had mentioned as one of our priority areas, one of our growth areas.

We have created a separate dedicated team towards selling as well as the R&D of vegetables and considering the kind of difficulties that have been there in vegetables in the quarter, we feel encouraged actually with the progress that we have made, although it is quite small in the overall scheme of things.

As you know, many reports have predicted that the per hectare profitability of farmers for horticultural crops are expected to actually decline in kharif because the prices have been quite poor, and it has been difficult for farmers to sell their produce in the market. So really speaking I think the economic condition and certainly so for specific vegetables have been challenging, but in spite of that we feel encouraged because we have been able to get our teams organized and move vegetable seeds in different parts of the country. But of course there is a long way to go and we really need to continue to focus on the vegetables category.

Apart from these two I think the earlier objective of improving our portfolio for rabi that still remains. That is however, not something that is a new development in quarter 1 because that is something which is still in R&D, that area will continue to be an area of focus. So these I think would broadly be the areas I think arising out of Q1. The big message we are taking away is that for us to refocus on cotton a lot more. So that is probably the way I would describe it, Aditya.

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

Rohit Nagraj: Sir, due to the preponement of season has there been any sales preponement which has happened and with deferred ales during Q4 is there any component of that in Q1 and because of this have we taken any market share from the unorganized players?

S. Nagarajan: Yes, I think to your point about the earlier arrival of the season resulting in or rather having an impact on our Q1 performance certainly yes. I think there is no question about it because everything has got accelerated, the sowing dates have got advanced compared to last year therefore the plant growth is getting advanced. So this is from a natural what you may say fundamental kind of factor, but of course there have also been other sentimental factors in terms of people feeling trade feeling little bit concerned about availability of material and thereby there has been an element of stocking up that has happened in quarter 1 as well.

So I think the growth that we have seen in the sowing season, the reports are suggesting that more than 20% we are ahead of kharif sowing compared to last year. This number used to be 40%-44% sometime back and I think it was 80% even earlier. So obviously there is a moderation as we would expect to happen because the overall kharif acreage in the country is what it is and therefore it would be unrealistic to expect that these kinds of percentages will sustain.

So, CRISIL for example is predicting a 1% increase in the sowing area by the end of kharif season, so maybe we could say that it could be in the 5% range if you are a bit optimistic. So we would expect therefore that there will be a moderation that will consequently happen. What we are seeing is actually like a movie which is playing out and we are in the middle of the movie, we have not yet reached the end state and at this point in time it is running faster.

In terms of what has happened in terms of shifts from Q4 into Q1 as we had mentioned as far as the domestic business is concerned it is a little difficult to have much of the shift of Q4 coming into Q1 because it is related to a particular crop stage and if you miss the crop stage because we missed it because of lockdown and those kind of factors in the early part of April and late part of March that is not something which we had anyway expected to recover. There has been a little bit of marginal recovery maybe in the second week of April maybe we were able to kind of do a little bit of business, but nothing substantial to speak about.

As far as the International business is concerned what had been slipped over from Q4 we had mentioned that over a period of time we will be able to retrieve that business because we have not got any cancellations there and that continues to be the case. Some portion of it has obviously come to in Q1, some portion of it will probably continue to come even in Q2. So that is broadly the picture as we see it.

Rohit Nagraj: Thanks for the clarity. Sir, on the financials side, so operating expenses have come out and this primarily would lead to shut down of facilities, offices. So the fixed expenses have come down. Are they going to come back in, from Q2 onwards? And what could be the quarterly run rate for the same now?

Sanjiv Lal: Rohit, it is true that our fixed costs have come down. And I would say largely the fixed cost has come down in the area of travel only. Of course, there is some saving of electricity because the offices are remaining shut. But apart from that, there is, you know I would say that we have increased our spend on digital marketing, on the marketing efforts.

Since everything is being done remotely, our teams are physically not visiting the trade or the farmers. So there are other expenses that have come. And maybe I will request Ashish to give some further insights on the fixed costs because, yes, that cost will come back.

Ashish Mehta: Yes . Excepting for the travel cost which has seen a decline. I think the other expenses on the distance marketing business of digital and other things have gone up. So, overall a very small decrease over last year.

If the situation improves, then naturally some travelling would happen. And in the first month of the quarter, you know that there was a shut down, which coincided with the COVID-19 lockdown where we carried out our annual maintenance work. which resulted in some drop in the utility cost But this is a normal yearly phenomenon. So we do not see any dramatic figures coming down.

Moderator: We have the next question from the line of Rajat Setiya from Vrddhi Capital.

Rajat Setiya: Sir, in the domestic crop care business, what is the mix of formulation and the intermediates?

S. Nagarajan: In the domestic crop care business, we have only formulation. We do have a little bit of sales in our institutional business for active ingredients. But we do not have any intermediates which we sell.

Rajat Setiya: Okay and what would be the mix of that formulation, B2C versus B2B institutional?

S. Nagarajan: Well you could say most of it is formulations. Maybe, I am just guessing it will be 90% to 95% formulation.

Rajat Setiya: What are the sales that we recorded in domestic crop care vertical in this quarter?

Ashish Mehta: **So,** I had mentioned it in my opening remark also that the domestic formulation business was at Rs. 215 crore, which gave a growth of 26% over last year.

Rajat Setiya: Sir, on the exports side, we were planning to file some 60 dossiers this year. So if you can talk a little bit about it. You know, by when do you think we will be able to file them and by when we expect the results to start coming in?

Sanjiv Lal: See, we are actively going ahead with filing these dossiers. And it of course takes time depending on the country. And we have already been able to successfully get some approvals especially, for some of our formulated products in Brazil. So we will be seeing some business of our formulated product in that country.

These are all long-cycle time things. So things which we do today will become available to us for business between two to five years down the line depending on the country. So the work on these dossier submissions is actively being done. And also we are expecting to get some business from what we have already succeeded in getting registrations of. Especially in Brazil where we have got one of our products registered, a formulated product.

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

Sudarshan: Sir, my question, you know the first part is when you are talking about this shift that has happened from the institution part of the business to the branded business, one would understand that you would also see some benefits as far as working capital is concerned.

And also that I hear that more cash buying has happened from the farmers. So, if you can talk a bit more about how the cash flows and the working capital was in this quarter because of this mix?

S. Nagarajan: I think we have definitely had a significant improvement on the working capital. Earlier it used to be 110 days last year. Now it is about 60 days. So that is actually a significant drop. That's largely coming on the back of the strong collections that we have had this year, Q1 of FY21, compared to Q1 of FY20. So this is one of the points that I think Ashish alluded to earlier, in terms of the collections that we have seen.

What we have also done is that we have increased the stock of our raw material inventory consequent to the COVID challenges as a coping mechanism. So the days of working capital reduction is the net result of all of these actions. However, I want to just preface this update that this is nothing to do about shifting of business from AI to formulations or anything like that.

This has been in the domestic business, 90% to 95% has been the formulation component of the business even in the past. So this is just a pure result of the Q1 rather than about any change in strategy or change in the mix of our business.

Sudarshan: And you said 60 days, right? From 110 days.

S. Nagarajan: You are right.

Sudarshan: And this would continue in the second half, second quarter. So which means that your surplus cash flows will be significantly better than your first half of the previous year. Is that a right assumption?

S. Nagarajan: At this point in time, for Q1 it is significantly better. Because I think as you know that cash at this point in time is one of the more important things that we are focusing on, from an operating point of view. Making sure that the right allocation of capital is going to things like inventory for example, like I mentioned to you. And of course to our CAPEX program.

And trying to expedite our collection, so that we are able to improve our position. But Q2 depends on how the COVID-19 pans out. So far, contrary to what our fears were, and possibly to some extent helped by the initiatives that we have taken, which is really to encourage prompt payment, we are witnessing very good collections and therefore our working capital has improved.

Sudarshan: Sir, my second question is on the innovation turn index. I mean, if I look at the annual report, I was quite surprised to see us doing 16% after several years of us being in, you know probably low single digit to 10%, etc . One is, you did mention that the product launch between this, FY17 to FY20, it has done very well. And also that we launched six products.

I mean, from a launch perspective, earlier you mentioned that we are quite heavy in insecticide and fungicides, and herbicide is a bit of a place where we need to fill. From that perspective can you talk a bit more about how we see this innovation index?

What kind of launches are we expecting to see this year going forward? And probably how much should be the contribution coming in from these products, probably this year and next year?

S. Nagarajan: So, I think we had mentioned this earlier also, we have indicated that at least two new formulations will be introduced in the Indian market every year. Now as far as this year is concerned, in Q1 we have not had any new introductions, although we have received approvals from the CIBRC which will go through for the launches in Q2. So I think we should definitely do better than what we had indicated, for this year.

As we go along we will have products that may arise for Q3, Q4. So that is as far as the outlook on new product introduction for FY21. Certainly I think the point of increasing our herbicide presence is built into our plans for product introduction, it may come either through in-house R&D or it may come through a co-marketing route. So that is something which we are focused on. That is what I meant earlier when I said that herbicide is an area where we need to focus.

Sudarshan: And just a thing on this, clarification, this product that you have launched, is it a 9(3) or will it be a co-marketing product?

S. Nagarajan: We have so far not launched anything in Q1. We are expecting to launch in Q2. Yes, 9(3) products.

Moderator: We have the next question from the line of Nitin Gosar from Invesco Asset Management.

Nitin Gosar: So, as you mentioned cotton is missing 'mojo', is it more to do with the science part? Because typically, seeds are more akin to the science part? Or is it more to do with the distribution marketing part, where the 'mojo' is missing?

S. Nagarajan: Well, I think, to be honest with you at this point in time, we are parsing through those different factors. Because we are still, as I mentioned in the middle of the season, the season is not completely over. And we are hearing reports, like I mentioned that many companies, other than two or three have had significant challenges. So we are trying to distill between what you may call as market factors and what you may call as company-specific factors.

Now within the company-specific factors, we do believe that both the points what you mentioned have a role to play. Which is the science-related aspect as well as the marketing or distribution-related factors. These are all at this point in time tentative thoughts. Like I said, we will formulate our view once Kharif is completed.

Nitin Gosar: And the ECL provision that was mentioned on cotton is, I believe the age life of the cotton seed is around two years. So that can be reused next year?

S. Nagarajan: No. The ECL loss I think was mentioned was more with respect to collection. As far as cotton seeds are concerned, you are right. The life is more than two years.

Nitin Gosar: Sir, your slides typically do mention about how we are progressing on logistics and distributions. This time it was not around. Could you throw some light on how we have progressed so far? Was COVID a challenge during the quarter for distribution expansion?

S. Nagarajan: Yes, it was a very big challenge. I think while, as we mentioned earlier, there has been a very swift adaptation to work from home. As you can appreciate, work from home, particularly in the sales environment can take you thus far and no further, right? In the sense that we have been able to have good Google Hangout Meets with our distribution partners. Sometimes, even with farmers.

But communication is at one level and engagement, convincing, these are all things where we do think that face-to-face engagement have been missed in the Quarter 1. So it has been a challenge. We have also had frequent changes as you know, in terms of red, green, yellow districts.

In fact, these were, this is how it started in April with different areas being classified. All of that actually changed. We had different waves of containment, zones being redefined and so on and so forth. That has been quite a bit of a challenge for us to focus on increasing the number of distributors. We are hoping that things will improve as we go along. But to your point, it has been challenging.

Similarly, on the logistics front also there have been tremendous challenges. You are aware about the difficulties that were experienced. Even consequent to customs clearances taking a long time, about may be a month back. And then, it got sorted out subsequently. Prior to that, of course, there were problems with regard to even movement of people. And of course, even prior to that we had significant challenges in terms of inbound raw materials itself.

The Baltic Freight Index, I think we had mentioned it in the April call, had actually dropped significantly, where the shipping had also got affected. So I think it would be fair to say that we have actually gone through a fairly trying, quarter. We have tried to cope with it by, like I mentioned, buying up more inventory where it is possible. We have tried to sort of, our teams have been working hard to try and coordinate with all these agencies.

The Government has been very supportive. As we had mentioned earlier as well, in the seeds area, as early as April, when the stocks had to be moved, different State Governments and the Central Government had called it out as an essential area. So I think what we are seeing at the end of Q1 is the result of a combination of both the challenges and the coping effort that both industry and the Government has taken.

Moderator: We have the next question from the line of Abhijit Akella from IIFL.

Abhijit Akella: Just to clarify with regard to the international business progress that we are expecting. So, just to clarify, did you mention on the call previously that we expect to see some traction in terms of the generic AI's business by 2Q of next year? Is that when we are expecting the plants to come up?

Sanjiv Lal: That is right, Abhijit. I did mention that our new facility, which is a multiproduct plant, we are taking that capital investment. We expect it to be up by around Q2 of next year. And we will, by that time, all going well, have our synthesis roots for a couple of products available for producing in that facility for the international market.

Abhijit Akella: And how much CAPEX would we be incurring in that part of the business? And if you could also just share this total CAPEX budget we have Rs. 150 crore or Rs. 200 crore, to be spent over the next year or so. What would the rough breakdown of that be across buckets?

Sanjiv Lal: So I would say that there is only one bucket to talk about which could be important. See, I would say that there is a contract manufacturing capital investment and there is other investments that we are doing to support both domestic and international business. So we are actually looking at it as only one bucket, Abhijit.

So, when we have something finalized on contract manufacturing, then we will talk about that, when we have something significant to report. But yes, we are expecting about Rs. 150 odd crore to be spent on capital. And much of that would have got commercialized towards Q4 of this financial year. This includes expansion of our Pendi capacity and many of our products we are already progressing with capacity expansion, because we are practically running flat out in terms of our capacities today.

Abhijit Akella: And just one last, just to clarify also on the CRAMs front, given the fact that international travel of customers might be restricted, etc . Would you foresee any kind of delays in possibly receiving client approvals for our facilities? Or would you still expect to sort of announce something may be in the next couple of quarters or so?

Sanjiv Lal: So Abhijit, it is very difficult to forecast these things. There are, like the way we are conducting our business remotely, discussions also happening with potential partners. And we have nothing further to report as of now. We will of course, when there are some material decisions that have been taken, we will let you all know. But for the time being we continue to pursue opportunities that we believe should be there for a company like ours.

Moderator: We have the next question from the line of Chirag Dagli from HDFC Mutual Fund.

Chirag Dagli: Sir, I wanted to check on Acephate pricing, technical pricing as well as the key intermediate DM Pack pricing and how are spreads in that product for us?

Sanjiv Lal: So Chirag, we will not get into specific pricing, except to say that many of these products that are being sold have some linkage with the raw material prices. So, as the prices move up or down, they sort of get adjusted for the cost of the raw material. Or the raw material cost gets adjusted in the price of the selling product.

Chirag Dagli: Have we made any changes in our sourcing strategy sir, for the key raw materials?

Sanjiv Lal: Well, certainly we have looked at further diversification of our sourcing. In fact, it is not something that we have done today, but we have been working on it for the last couple of months. Because as you are aware, during the last financial year, there were considerable disruptions which have happened due to various safety incidents in some of these chemical parks, especially in China.

So that had been a little disruptive. So, for most of our products, we are looking at multiple suppliers who are located in different chemical parks in China. So that, if there is a problem in one particular area, it should still give us the opportunity to get from other areas.

Chirag Dagli: Specifically for Acephate sir, we have been able to de-link from China?

Sanjiv Lal: No. we have not de-linked from China on Acephate because DMPAT is one product which is being produced in fairly good quantities in China and our dependence on China for DMPAT continues to be there.

Chirag Dagli: And sir, you talked about, you are still talking about 1% sowing growth for this Kharif season. Is there an estimate for the Agchem sales for kharif 2021 for the industry as a whole?

Sanjiv Lal: If you look at the growth over the last couple of years, it has been between 9% to 11%, so may be a percentage here and there. But, I do not think it is going to be very, very different. While the farmer certainly has money in his hand, I do not see him putting double the dose of anything into his field. So, it may be around, between 10% to 13% to 14%. That is my guess.

I do not have any insight because the consumption is yet to start. A lot of it has just gone as placement only. And as you are aware that we are not able to send our teams physically into the field for them to understand really what is happening physically in the fields. But yes, there has been very good placement.

Moderator: We have the next question from the line of Laxminarayanan from ICICI Mutual Fund.

Laxminarayanan: Couple of questions, first is just to understand in terms of your product mix you talked about. In the agrochemical space where we are operating, is it possible to make some adjustments in terms of grammage of the volumes like what FMCG companies do, not for all products but is there a possibility to actually do it because how the farmer comes in, is he comes with a budget in mind or it is a product in mind or a volume in mind? .

Sanjiv Lal: Typically the pack size farmers buy depends on his acreage. And there is a recommended dose, per acre usage. So the pack sizes are decided by that criteria and unlike in FMCG where it is on affordability which decides the pack size.

Whether it should be a bottle or a sachet of a shampoo, the ticket size will determine the kind of customer who will buy it. It does not work that way in agrochemicals. It is more in terms of dose per acre and the farmer will buy depending on his size of the land that he has.

The second point to keep in mind is that many of the newer generation agrochemicals actually made available in smaller packs even for larger acres. So because of the higher efficacy etc. that the pack size will be small but may be intended for a much larger acreage. So I would say that FMCG practices are not translatable into agrochemical business.

Laxminarayanan: And over the last one year there have been a lot of changes in terms of working capital and in terms of how we manage things. It is extremely a great job what the team has done. With respect to the supply chain what has been any improvement which to ensure that there are no stock outs so that the right crop or the right I mean there are multiple crops in multiple states and where we need to have your SKUs to be dispatched, right? Any efficiency got on or any specific programs that actually have gone through in the last one year or so on that front?

S. Nagarajan: Yes, I think already what Sanjiv mentioned. I think one of the big things which I would say is a shift or a change not for one year but more let us say one quarter is to focus on resilience versus lowest cost. So we have diversified suppliers and tried to sort of ensure availability is central to the activity and operationally it would translate into we have also kind of had that share of business between L2 and L3 suppliers, not just relying on L1 suppliers. So one is that and of course wherever it is possible.

Secondly, I think we are also in the process of automating. This is actually a little bit longer duration activity in last two quarters in terms of our procurement process. We have implemented a procurement platform and again wherever feasible it is not 100% coverage of all the items that we procure but certainly for a number of items we have automated the procurement process with a view to improving efficiency, better price discovery and simplification of activity as well. So that would be the second important area.

And the third is that consequent to the merger of the seeds division, the erstwhile Metahelix with crop care that is Rallis. We have integrated some of the areas of procurement in order to derive synergies as well as better knowledge transfer between the more experienced procurement processes and procurement teams of the erstwhile Rallis with the erstwhile Metahelix. So I would say these three would probably be important changes.

Laxminarayanan: And how is this transmitted to your reaching your customer with the right product? Has there been some improvement, this is you are talking about the input logistics which is procurement. What about the outbound logistics in terms of reaching the customer because if there is a stock out in a high growth phase like what it has been. Then there is an opportunity lost, right? Has there been some changes in the outbound logistics supply chain?

S. Nagarajan: Well, I think we are focusing on that. Certainly in this quarter gone by ensuring availability has been a central element of focus. What I mean by that when I say focused is that we did identify in the early days of the COVID crisis where the yellow and green areas and tried to prioritize the availability of materials to the green and the yellow areas because at that point in time we felt that it will be very difficult to for us to get into the red areas. So however as you know this red, green, yellow and all that changed very dramatically.

So I am a little hesitant to say that it has been an unqualified success. But certainly I think prioritization of material to wherever it is possible to get it over that has been an important area from a planning point of view, from a dispatch point of view. Second, of course is that the consequent to COVID some of the non-traditional channels are channels with whom we have tied up as well. Again these are early days. We are still waiting to see how much of this has been effective and how much of it has actually gone through.

We have also supported some of our distributors to be able to make material available in the particular villages because the distributors are available in a particular place but they will have to get the material over to specific villages and in some early stages again there were lot of difficulties for people to travel and so on and so forth.

So I would say we have tended to focus on this a lot more and of course we are also trying to use some basic prediction platforms that we are having with regard to disease and pest incidence, but these are all prediction engines which are still learning. So again I would not call that as a fully-established kind of a system but we are trying to use it to prioritize our placements in specific geographies where we think this information can complement the information coming from our own team members who are locally present and say that okay we can move this particular product more of this product in this particular geography and so on. But I would say between the supply side what I explained the input side and the output side, on the input side we have made a lot more progress. Output side is work in progress.

Moderator: We have the next question from the line of Nirbhay Mahavar from N Square Capital.

Nirbhay Mahavar: Just a follow up on our strategy. In our earlier communications we have stated that our medium term plan is to take domestic market share from 6% to 8% and share of international revenue to 40% of crop care segment. We have seen some hiccups in international business in recent quarter so is there any recalibration for our longer term plan, medium term plan for the international business?

Sanjiv Lal: So Nirbhay, as of now there is no change in our overall strategy. There will be certain occasions where things may not really work out the way we would expect because the revenue numbers change but volumes may still be good, but your revenue numbers may be up and down. But on an overall basis for our crop care we do expect to have a 60:40 between domestic and international. So that is our approach and the target still remains. And as far as our domestic business is concerned we have stated that we will be ahead of the average in terms of growth of the Indian industry and that is really driven by the vagaries of the climate and agriculture that can change from year to year.

So while we may have let us say a 26% growth during Q1 of FY21, there is nothing to suggest that Q1 of FY22 will be having similar kind of growth if the weather patterns are different next year we actually may see things happening in a quite a different manner. So these are vagaries that we will need to keep dealing with. But yes, we will strive to improve our market position to about 8%.

Nirbhay Mahavar: I was just trying to understand directionally we are set it there?

Sanjiv Lal: Yes, absolutely. There is no change in our strategy as articulated.

Nirbhay Mahavar: Another thing sir, on seeds business from the last two years we are seeing some moderation in the volume. So is it because of the production related challenges or the market or the demand itself is under question? Because last year also our volume growth was subdued and this is on top of a reasonably good monsoon.

S. Nagarajan: No, it has nothing to do with the supply. I think on the supply side we are well provided for. I think we have to get some of our front facing particularly cotton has been the big determinant in both the years in terms of the growth not coming to the level that we had expected it to be and that is the areas which we covered in the beginning of this call which we intend to focus on.

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

Sanjiv Lal: Thanks Gavin. So as the season for Kharif progresses we remain focused on getting utilization of our factories to be at the highest level. There continued to be some challenges on adequacy of labor availability but we are dealing with it in the most appropriate way that we can. Our teams will continue to engage remotely with the various trade partners and with the farmers. And as the situation starts improving our engagement on the field with the farmers will certainly start moving in the direction where it has traditionally been.

The farmers still need a lot of support and guidance on agriculture which Rallis has been very strong in and we hope that we can get back to providing the kind of knowledge that the Indian agriculture and the farmers need. So we look forward to a good Q2 as well. The current situation on the ground seems to suggest that it will be a good Q2. Of course there are vagaries of the monsoons which would play out. The incidents of pest infestation remain something which is very difficult to determine. We have done well in terms of positioning our products in the market.

We have new products which we had launched last year which we hope willdo well during the current Kharif season and I think our team is doing the best under the circumstances. They are doing some outstanding work and a lot of the performance of Q1 goes to the entire Rallis team for pulling together along with our extended supply chain partners.

Thank you very much for joining our call and back to Gavin and the moderator.