# Rallis India Limited
# Q2 FY22 Earning Conference Call Transcript
October 20, 2021

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**Moderator:** Ladies and gentlemen, good day and welcome to the Rallis India Limited's Q2 FY22 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa:** Thank you Janice. Good day everyone and thank you for joining us on Rallis India Limited's Q2 FY22 Earnings Call.

We have with us today, Mr. Sanjiv Lal - the Managing Director and CEO; Mr. S. Nagarajan - the Chief Operating Officer and Ms. Subhra Gourisaria - the 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 sent earlier. I now invite Mr. Sanjiv Lal to begin proceedings of the call. Over to you, Sanjiv.

**Sanjiv Lal:** Thanks Gavin and good afternoon, everyone and thank you for joining our Q2 FY22 Earnings Call and I am joined in this meeting along with our COO – Mr. Nagarajan and our Chief Financial Officer – Subhra Gourisaria.

Let me begin the call with a quick overview of the sector post which I will move onto to Rallis Specific developments.

At a broad industry level, Q2 was a tough quarter for the business given the challenging external environment mainly in terms of high input prices and erratic monsoons. While the overall monsoon was just 1% below the long period average broadly in line with the forecast, the unevenness observed during the quarter had a significant impact on the overall agricultural activities. While July and August received lower than normal monsoons, the month of September witnessed excess rainfall, especially Maharashtra, Western UP, Gujarat, Western Rajasthan and Punjab received lower than average rainfall during July and August leading to a decline in the overall crop acreage, which was further compounded by flood-like situations in the month of September in key agricultural areas of Bihar, UP, Madhya Pradesh as well as Maharashtra. Lower and inconsistent rainfall during the first two months of the quarter resulted in missed or lower sprays especially in the herbicides category. Sale of insecticides and fungicides was relatively less impacted given that these categories are generally consumed in the later part of the season. In post emergent herbicides, soya bean crop, for example, witnessed severe impact while the impact was relatively lower in the case of the paddy crop. Further, cotton insecticides were severely affected during the ongoing Kharif season.


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The one positive from the monsoons having largely made up for the shortfall was that there is now adequate water for the Rabi season. In addition to the monsoon related challenges, industry has also had to deal with challenges related to raw material and freight cost. While one would ideally like to pass on the rising input cost, it is not always possible due to market conditions and affordability of the farmer for the crop that has been cultivated. You all would be well aware of the very extreme and unique challenges being faced by the industry particularly from inputs from China. In some instances, inputs have either been unavailable for extended periods of time or prices have seen a significant spike. This combined with a limited availability of containers and high freight rates has resulted in significant stress both in terms of cost as well as supply chain.

On the exports front, barring the freight and logistical challenges, business at a broad level continued to perform well. On a long-term basis, the sector fundamentals continue to remain strong.

Moving now onto Rallis specific developments:

Given the circumstances, our crop care business performed satisfactorily, but our seeds business suffered significant headwinds in our key hybrid categories. Erratic monsoons impacted the demand and revenue momentum while rising input prices have led to margin compression for our crop care segment.

Moving onto our operational performance:

We continued to make steady progress towards our stated objective of improving our product mix by introducing newer products and widening our distribution reach. Having added 6 and 4 new products during FY20 and FY21 respectively, we have added 6 crop protection products during the first half of the current financial year. As you may be aware, in the crop protection category, we launched rice herbicide as well as fungicide for fruits and vegetables during Q1.

Furthermore, we had also introduced one product under the crop nutrition category. Continuing the same momentum, we introduced three crop protection and three crop nutrition products during Q2. We are also pleased to note that we have been able to scale up the launches done during last year, chiefly aided by the progressive unlocking that we have witnessed. This allowed our sales force to engage in more on-ground activities and undertake demonstrations of new products through farmers. However, we believe this situation will further improve allowing for even better demand generation activities in the field. In addition, as mentioned in our previous call, we have also conducted a thorough analysis of our portfolio and identified opportunities for improvement and are undertaking steps towards plugging the gaps in our portfolio. Further, we are also undertaking steps towards building our new brand architecture to bring greater simplification and recall. We had rolled out 26 products under the new brand architecture during FY21 and by H1 we have had almost 43 of our products coming into the new brand architecture.

Lastly, in terms of our distribution network: Our network of close to 6,700 distributors between crop care and seeds business and approximately 80,000 retailers cover almost 80% of the districts.

Moving onto the seeds business:

Q1 was an extremely difficult period for the entire industry as the growth got impacted owing to increased demand of illegal herbicide tolerant cotton seeds and a crop shift due to the prevailing commodity prices outlook as well as the erratic weather patterns. Despite the near-term challenges, we continue to improve our portfolio by introducing newer products which include medium duration paddy and additional cotton hybrids as well. Our efforts in the seeds business are directed towards building our Rabi portfolio, delivering volume growth across segments, setting up new retailer loyalty program and higher hybridization to be supported by the products which are tolerant to disease as well as abiotics and that is where our efforts R&D also focused. We are also focusing on in-licensing tie-ups for mustard and vegetable seeds till the time we are able to commercialize our own hybrids.

One important strategic initiative we have kicked off towards end of September was the 'One Rallis' approach to the market to leverage the synergy benefits from our strong presence in specific geographies and seeds into our crop care business and vice versa. The sales and demand generation teams have been integrated under 'One Rallis'. This will allow us to present a single face to the trade and to the farmers for both the categories. We believe that we could benefit from both sales gains as well as cost efficiencies. Our 'One Rallis' initiative currently is introduced in the Eastern part of the country and we will use this as a template to arrive at a national architecture in due course of time.

As far as the international business is concerned, we registered revenue growth of 22% during the quarter. Demand for most of our products continues to remain strong.

With regard to Metribuzin, volume still remain subdued, however, we have completed reorganizing Metribuzin production facility at a single plant in a single building during the quarter and the growth in Q2 was chiefly due to Pendimethalin and Hexaconazole. Their enhanced capacities are being well-utilized. We are also working towards increasing the share of formulated products in our exports business and there has been some progress on that as well.

Lastly, as mentioned earlier, we are also undertaking steps towards augmenting the overall product portfolio for the business and are on track to add at least one new active ingredient during the next financial year to complement our existing portfolio and we continue to explore contract manufacturing opportunities with potential partners and discussions are progressing satisfactorily. Our efforts for domestic sourcing of some of our raw materials are also progressing with two raw materials for one of our products being now locally sourced.

Further, on the raw material front, as mentioned earlier, costs have been going up. We have undertaken a high frequency approach to calibrate our pricing as much as possible, keeping customer affordability, brand pricing power and our competitive factors in mind. However, as witnessed during Q2, cost pressures have resulted in margin decline both due to our approach to protect rupee margins and the difficulty in the market to absorb steeper hikes. However, in the domestic crop protection market towards Q2 end, we have undertaken further price corrections that average about 8% to 10% as the cost pressures have intensified.

A quick word on the CAPEX, before I hand over to Subhra. We have completed the first phase of our formulation plant at Dahej SEZ and we are awaiting certain regulatory approvals before we can start invoicing from that facility and we are on track to complete our multipurpose plant at Dahej SEZ during H1 of the next financial year. Further, we have also completed the Ankleshwar debottlenecking projects for two of our active ingredients and our CAPEX for FY22 should be in the region of Rs.250 odd crore as indicated earlier.

With that, I will request Subhra to give more detailed analysis of the financials. Over to you, Subhra.

**Subhra Gourisaria:** Thank you Sanjiv. Good afternoon, everyone. Thank you for joining us today for our Earnings Call. I will quickly walk you through the financial performance for the quarter post which we can commence the Q&A session.

Starting with the topline, our revenue for the quarter stood at Rs. 728 crore. This is against Rs.725 crore generated during the period Q2 FY21 which is the marginal growth of 0.4%. On a first half basis, we have registered growth of 5.8%, however, if we slice this growth, crop care growth was healthy at 8% with YTD at 11%, however, it was seeds which saw negative growth at 65% for the quarter, primarily driven by higher returns in bajra and cotton. Within crop care, both domestic and international business showed good growth of 13% and 8% respectively for the first half and within international business, if we remove the impact of this spill-over growth which we spoke during the last quarter, the growth was at 27%.

Seeds of course had a bad quarter with lower liquidations than planned. Cotton business as we spoke got impacted due to proliferation of illegal HT cotton and high acceptability of these hybrids by farmers. In bajra, there was a significant reduction in sowing area due to a pause in the rainfalls during the months of June and July. We managed the adverse situation with granular planning and focusing on capturing liquidation opportunities in other areas wherein rainfall was good.

EBITDA for the quarter stood at Rs. 88 crore as against Rs.117 crore which is 25% lower. As mentioned by Sanjiv, we indeed witnessed a sharp surge in input costs and also freight cost both inland and ocean. While we tried to mitigate through and pass through most of it, cognizant of our ability to pass on and of the farmers to bear the same and ensuring the quality produced, has limited our ability to fully pass on the cost inflation, hence our material margin is down by 185 bps year-on-year. However, if we look at it, large contributor to this is the adverse mix since seeds make better margins and its revenue contribution dropped from 10% in the base period to 3% in the current quarter.

Employee spends went up due to increments given to the employees as against the base quarter of FY21 where there were no increments to our employees.

Our profit before tax was also impacted due to lower export incentives under the RoDTEP schemes and lower yields on investment income. Overall, we saw PAT of 7.7% as against 11.6% in the base period.

Moving onto the business wise performance:

Domestic business despite the challenging environment grew by 3% over the previous year and 13% for the first half of the year. The growth is largely driven by our efforts in recent years towards improving the product mix and widening our distribution reach. We introduced new products during the quarter which have all been well-received by the market. Besides improving our product portfolio, our efforts towards the coming years will also be directed towards scaling up new introduced products which will accelerate the revenue momentum and also help in improving the overall margin of the business. We will continue our efforts to build differentiated and relevant products to serve the customers.

International business:

Our strategy of adding new customers and expansion into new geographies is actually playing out well. Our growth was 22% in Q2 and 27% in first half removing the spill over impact. This required the team to demonstrate high levels of agility in navigating through the heightened prices of nonavailability of containers on a timely basis. We actually formed a cross-functional team and reverse planning to schedule ex-factory dates as per the selling dates has helped us during these turbulent times. We are also quite pleased that the growth momentum displayed by niche business, crop nutrition where the growth is quite competitive and the opportunity to grow is good. We will continue to nurture and build this base.

In seeds, we are cognizant of the challenges and took several actions to contain the cost in Q2, however, we are conscious that the business needs some strategic rethink and we have prepared a road map that acknowledges the fact that some of our growth strategy may not have fired as desired. As Management and Board, we spent some time to identify actions in the short-term and the medium-term, we are confident that many of these steps will help in building and moving this business on a profitable growth trajectory in future.

A quick word on CAPEX before I hand it to the operator:

Overall CAPEX for the year should be in the range of Rs.250 crore as already mentioned by Sanjiv. We are ready to commence commercial production in a state of art formulation plant at Dahej. Even in MPP, our progress is quite satisfactory. That concludes my opening remarks.

You can now commence the Q&A session.

**Moderator:** Thank you very much. The first question is from the line of Varshit Shah from Veto Capital.

**Varshit Shah:** My first question is on the strategic rethinking which Subhra alluded in the seeds division, so just wanted, some more clarity on the same, is it rethinking of the strategy in the portfolio or on the longer-term basis more about, may be even getting out of the business or having some different strategic JV of sort, so what is the thoughts of the management level on the seed side, at the strategic level both in the short term as well as in the long term?

**Sanjiv Lal:** So when we talk about strategic rethink one of course is to look at what is our growth aspiration on some of these categories, certainly we had very high aspiration in terms of our growth in let us say the cotton category in particular because we were relatively small in that and we have been working both on the new hybrid side as well as on the market side and therefore some of these developments which we are seeing, which is impacting us in particular and I am sure the others in the industry have also been impacted by the cotton seed, so in terms of our own growth aspirations, in a way we are moderating that because there is a long cycle time because the products which we want to sell next year have to go through the seed production program in the current year, so we have done some moderation in terms of where we expect the growth on the cotton category to be, so we will take it step by step. We have a number of very good hybrids that we had marketed this year. In fact, while the volume was very small, the market returns were very nominal in some of these newer categories, so we will continue to focus on some of our newer products as we go into next year, but the overall growth that we are expecting from this category we are moderating it till there is some clarity in terms of how the illegal cotton will play out. We have already seen a doubling of the sale of the unregulated cotton seeds over the previous year to this current year. So, we will be a little cautious in this category and this year, we have had fairly high returns on the millet side as well because of the delayed monsoon in the Northwest part of the country and the farmer simply did not take not take up that crop plus there is also some softening of the commodity prices on millet. So, that had impacted this year, but we do have very good products and we continue to remain bullish on that and as far as our Rabi portfolio is concerned, that has been an area where we have been working and we have indicated that in the next two years, we will see significant new product launches and scaling up happening during the Rabi season and we have also called out vegetable seeds as a significant area for us. It is fairly small now, but we continue to build on that through new in-licensing partnerships and we have also taken a new approach to how we are going to be doing our market engagement and as mentioned we are looking at the Eastern zone for this pilot which we have already put in place with one face to the customer which is our distributor as well as to the farmer through common sales and marketing team for our product categories across crop care as well as seeds. So, in summary, strategic rethink is largely on the growth expectations that we have from the cotton category and also to fast track the introduction of some of the new hybrids, we had almost 5 new hybrids for cotton going through the approval process, so we will be focusing on scaling these up at reasonable rate, but some of our products which have not fared very well during the last two years, we will be relooking at those particular products in terms of how we want to grow them. So, that is the long answer to your question on strategic rethink, but the other part of your question was whether we are looking at hiving off this part of the business, there is no such discussion.

**Varshit Shah:** And my second question is on the cost inflation for our both international and domestic business, so obviously I understand it is the industry wide phenomena and everybody is affected and based on at least some of the interactions, I am having with the industry peers, it seems that this will flow into Q3-Q4 as well, so my question is, first does the industry in general and including Rallis has the ability to sort of fully pass it on in phases or probably the industry will have to observe some of the losses during the Rabi season given that there are some stocks as well in the channel for the industry at least, so what is your sense of course, I know it is quite fluid given the China situation, but at least what is the sense you are getting from the team and what is your assessment about that?

**Sanjiv Lal:** So, the points you are raising, I think not only industry wide, they are also global, so if there is a price increase in the raw material that is happening, we are to the extent possible passing it onto the customers and even related with things like freight that has become another headache because the way the ocean freight rates have been changing, we have also to the extent possible moved to FOB contracts rather than CIF contracts, so that the cost of the ocean freight is decided at the point of shipping rather than being planned in advance. So, to that extent, we are making sure that we are able to protect the margins because it is not only us, I think even the customer sitting on the other side of the globe are facing the same challenges from everyone and if there is a need for the agrochemical and there is ability of the farmer to buy it, certainly those prices are being passed on and all set and done, the commodity prices globally are favouring use of these kind of chemicals because the commodity pricing is all very favorable and as far as domestic is concerned, there is a point that you make about high inventory levels and I can only say that as far as Rallis is concerned, our inventory levels are not a concern for us because we have not done any kind of channel stuffing. We have been going only on the basis of what we are outlooking in terms of requirement. So, there is no extra inventory that we are holding, beyond what we think is reasonable.

**Varshit Shah:** Just one last question, on the strategic outlook on the capital allocation, so you are already having extremely strong balance sheet and what I understand from you is that you might go a bit slow on the Seeds side given the reason which you mentioned, so going ahead, is there sort of strategic rethink on having a higher capital allocation to your crop care segment or is it that you are already committed in that zone and there is no incremental increase in the long-term CAPEX plan? I don't want any numbers, but just what is on the drawing board and if there no additional incremental increase then does it mean that probably we could see some higher payouts to shareholders?

**Sanjiv Lal:** So, certainly, our inventory level on the seed side has gone up because of the very sharp increase in return. Inventory working capital on the seed side has gone up, so it will take some time before we are able to get that down to earlier level and as far as the capital allocation is concerned as we have already indicated about Rs.250 odd crore will be the CAPEX spend during this year, some of our projects are coming to fruition in terms of commissioning as I mentioned the formulations plant at the chemical zone in Dahej, we have already taken trial production of one of the lines. In a phase manner, we will be commissioning the other lines as well and once we get the regulatory approval, we will be able to start the dispatches from that site. The other big investment for us is the multipurpose plant which is under construction, all going well. We are looking at commissioning this plant towards H1 of next financial year and as I had already called out, for the work which is being done by our R&D teams in terms of new product introduction on the active ingredient side, those will be commercialized in the new multipurpose plant. So, we are expecting at least one product to get commercialized from the new facility next year. As far as further capital is concerned, you may be aware that out of the Rs.800 odd crore that we had articulated 2 years back, about Rs.550 odd crore is what is committed, and we do have headroom in terms of new projects. Some of them are still on the drawing board. We will be building another multipurpose plant for the herbicide, so that decision we will be taking during the early part of the next financial year in terms of when we need to kick start that project. So, there will be further announcements related with our capital program towards Q1 of next year, but work is in hand for some of these things including some projects which we are looking at for backward integration because the risks related to China sourcing is now very well understood and we have been facing these issues, I would say for the last couple of years where either it is safety related issue coming out of that country or there is an environment related issue coming out of this country, now it is the energy related issue coming out of that country, so some thing or the other we will keep entering smooth trade and I think we are also very clear that we need to de-risk the supply chains and we have made some progress during the last couple of months as I had mentioned, two of our raw materials. This is for one of our products, we are now indigenously sourcing, so that one product has been de-risked and in that way, we are also working on some of the other inputs that we import to look at India based sourcing if we are not going to be doing it ourselves. So, we are working with partners domestically also for local sourcing. .

**Moderator:** The next question is from the line of Aditya Jhawar from Investec Capital.

**Aditya Jhawar:** My first question is on the seeds business, if you can quantify what was the actual sales return and what is the share of cotton in our overall seed business? That is the first question.

**S. Nagarajan:** The sales return across all the crops, was roughly in the range of about 39%-40%. The cotton, you are asking about the revenue contribution of cotton, is it?

**Aditya Jhawar:** Yes, sir.

**S. Nagarajan:** Revenue contribution of cotton in H1 is about 12% - 13% of the seed revenue.

**Aditya Jhawar:** So, the 30% - 40% sales return in the sense that if you can quantify, sir in rupees, crore?

**S. Nagarajan:** Our seeds revenue, actually we look at the overall half of the year because as you know in Q1 most of it is placement and at the end of H1 is we generate the revenue, as you may have seen in the investor presentation, our H1 revenue is about Rs.294 crore, right?

**Aditya Jhawar:** Yes.

**S. Nagarajan:** let us say Rs.300 crore that is after accounting for 40% return, so about Rs.430 crore minus the Rs.300, so about Rs.130 crore will be the return, you can back calculate the return.

**Moderator:** The next question is from the line of Rohit Nagraj from Emkay Global..

**Rohit Nagraj:** Sir, the first question is on the international business, so what is the long-term strategy from a 3 to 5-year perspective and we had articulated during last concall that we have already started a new initiative in terms of contract manufacturing, but beyond that how were we looking to shape up this particular aspect of our business and what are the milestones that we are looking at may be on a yearly basis?

**Sanjiv Lal:** So, as far as the international business is concerned, we have existing set of products that we are currently exporting and as you would be aware that we have made investments in expanding the capacity of some of these products, for example, Metribuzin, we have expanded the capacity; Pendimethalin, we have expanded the capacity; Hexaconazole, we have expanded the capacity, so today both the Hexaconazole as well as Pendimethalin, we are practically running at capacity of the new facility. Metribuzin, we expect that by end of Q4, that whole facility should be getting fully leveraged. So, there is existing portfolio products that we have already scaled up and we will also take decisions depending on the way it is panning out, whether further investment needs to be done and the other part of the international business is the new product introduction, the new AIs which I had articulated in my earlier response that the new multipurpose plant is intended for producing some of the newer products that are coming through our R&D efforts for the reverse engineering, etc. One product we will be commercializing from the MPP plant next financial year, so the idea is to continue to leverage our existing portfolio, second is, introduce new actives into our portfolio and the third is to also expand the formulated product that we export. As you would be aware, last year we have started business on a formulated product for Metribuzin going to Brazil, we have also got registration for one of our formulated products for Acephate again in Brazil, so that will be another big opportunity for us to expand the formulated business and apart from that in some of the other African and South East Asian countries, we are already doing reasonably sized business on the formulated products. So, these are the three parts of our international business that we will be looking at expanding. Trust that answers your question.

**Rohit Nagraj:** That was really helpful, sir, the second question is, on the existing contract manufacturing business, so how is it shaping up and how are we looking at it in the next, may be in the near term and medium term?

**Sanjiv Lal:** Our existing contract manufacturing business, you would be aware that one of our imported products which was the Polymer, that business has not been moving at all for the last couple of quarters and this was really related to the airline industry where it goes to and there is also very high inventory with our customer who buys this product from us on contract, so we see this part of the polymer business reviving only towards middle of next financial year. In the meantime, other products are continuing to do well, so that is not a concern for us at this point in time and we have as I had mentioned in our earlier calls that we now have a structure for actively seeking out new opportunities in contract synthesis. Here again, there is good developments which are happening, but I would say it is not yet fully concluded for us to be talking about, but we are seeing very positive traction on the newer opportunities that we are currently working on. So, there is progress, but nothing to report as of now and we do see this as a good opportunity because not only for us, but I think also for potential customers as they are looking at de-risking their own supply chains, we believe that Rallis will get good opportunities in this pace of custom synthesis as well and here again, we are not specifically looking for patented molecules because we do understand that many of the innovators may not look at patented molecules to be produced by Rallis, Rallis being a competitor to them, but there are lot of other opportunities that we are exploring. So, this part of the business will start giving us growth, I would say in the next two years.

**Moderator:** The next question is from the line of Ashwin Agarwal from Akash Ganga Investments.

**Ashwin Agarwal:** First of all, I just wanted to ask, can you just give us the geographical revenue for H1 or like, can you guide us for the geographical revenue side?

**Sanjiv Lal:** So, we don't normally share that data, but I would say that most of our international revenues are coming from the Americas. That is a larger contributor to our international business. The Hexaconazole category largely goes into paddy, so that is the South East Asia kind of product, but most of our revenues are coming from the Americas and some from Europe.

**Ashwin Agarwal:** And then my second question is, like as you said that there is a molecule you are going to develop one molecule, you are just planning to develop on, so can you just give me some, any rough idea of how much time it would take on an average basis, if you got into a molecule development and all?

**Sanjiv Lal:** See, the work on synthesis for multiple products is going on at the R&D center and as I had mentioned the multipurpose plant, it is called multipurpose because we will be able to do more than one product in the same plant, so we will be commercializing at least one product next year coming from the new multipurpose plant. So, that will scale up overtime because as you are aware that while we may have a cycle time for our own product development which is well under track, there is also another cycle time related with being able to commercially scale up active ingredients because it requires registration in multiple countries. There are certain countries where the regulatory process are simpler and that is where we will start making our initial sales, but the scaling up of all these products may happen over a 3-year period, so initially there will be low sales for some of these newer AIs, but it will scale up over a period of time.

**Moderator:** The next question is from the line of Viraj Kacharia from Securities Investment Management.

**Viraj Kacharia:** Just have couple of questions on the seed side, first is, if you can just provide some perspective in terms of the aging of the portfolio like say across crops, say cotton, paddy, maize and related question is, you talked about us seeing almost 40% sales return, so is it largely concentrated in say cotton and bajra, but may be not so much in say, maize or paddy because if you look at the overall sowing data for these two crops as well, it has actually been flat or grown, so just wanted to understand, how should one look at the crop level impact?

**S. Nagarajan:** Maybe, I will take the second question first, yes, it is largely in bajra and in cotton, so what we have witnessed is that as already mentioned by Sanjiv, the impact of the HT illegal cotton has been quite sizable in the case of cotton and also in the beginning of the season when the cotton sowings were happening or underway, you might recall that there was very good commodity prices in soya bean and groundnut in some of the geographies which are common, there definitely was a crop shift and we did find that these were the cotton contributors. Of course, we also found that while these were external factors, we also had to acknowledge that there are certain hybrid level features that we will have to also work upon and that kind of plays into the overall seed business strategy review that Sanjiv and Subhra earlier alluded to. As far as millet was concerned, bajra, certainly as is well known, the commodity prices were extremely low this year as it continued to be. We also found that when the pausing of the monsoon happened between end of June, third week of June you can say to about July 14th or so what, maybe 10th of July which is actually the key season for a lot of millet liquidation. Liquidation got affected, so that is the other crop where we had a challenge in terms of sales return being high. As far as paddy and maize, the sales returns have been stable. In the case of maize, we did have a challenge in terms of supply of availability, so it was not so much market side challenge that we had faced, so it was not a sales return challenge, but we did have some supply challenges subsequent to some difficult situation that prevailed during the production season of Rabi 2020. So, this is to sort of provide some input on the crop level situation. As far as the portfolio and the aging of the portfolio what you were asking, certainly as you know our cotton portfolio is comparatively young, we are in the process of coming up with hybrids, in fact this year we had 5 hybrids that were introduced in the market, so cotton would be a comparatively younger portfolio. If you look at our paddy portfolio, you can say that it is somewhat intermediate, one of our top selling hybrid is probably about 6 or 7 years, it has been in the market. As far as our maize portfolio is concerned, on the Kharif side, it is a little bit of an older portfolio and our work is presently to identify replacements in the Kharif and as far as Rabi maize is concerned, the focus is in coming up with hybrids which are competitive. So, that I think as far as maize and bajra, we did undertake portfolio refreshed few years back, 3 years back, so much of the bajra portfolio is also comparatively younger. I hope that gives you somewhat idea.

**Viraj Kacharia:** Just one question I had on the seed business, if I look at our commentary throughout in the past has been that with respect to the cost base, if I look at the business, it is relatively high cost business for us, relatively other peers in the market and one of the reason if you look at the cost elements such as the employee cost, sales and marketing and promotion and our commentary in the past has been that the domestic crop care and the seed business required two distinct, two separate sales and marketing teams and because seeds being a year around and reaching activities and consumption happens in a month or a quarter, specific the quarter, the requirements in terms of demand generation and everything is quite different, now what we are saying that we are coming up with a more unified and single team for both of them, catering to both of them, so I am just trying to understand what really changed which is actually making us move in that direction?

**S. Nagarajan:** You are absolutely right, I think as you know in the industry, there are both the models that have prevailed in terms of having independent category focused sales operations as well as unified and if you look at the situation that we have gone through this year in terms of the challenges that we have faced with regard to sales return, I would say that it has provided us with an opportunity to revisit some of these dominant thoughts that have guided the way we have gone about our operations, so we kind of took this as a chance to review some of these views and what we did take into account therefore is to introduce this in certain states or certain geographies where we do have difference in terms of the contribution to each of the categories. So, for example, the choice of East zone, really if you look at it at the state level, it comprises of Assam, West Bengal, Bihar, Jharkhand, Orissa and Chhattisgarh and in each of these places, we have different contributions to each of the categories of business. So, you do have a place like Orissa where you have a large contribution for the seed business, Orissa or Jharkhand and you do have another geography where it is almost equi contribution, Chhattisgarh kind of a place and then you have the other side where you have in West Bengal, you have a large contribution in the crop care business. So, what we therefore have embarked on is to evaluate our own thinking through this pilot and in a carefully calibrated way by providing adequate resources for demand generation as well as for sales engagement with the channel partners and we really are setting it up in a fashion which will take into account some of the concerns you can say that we may have had in the past. So, that is how we are going about it and that is the context we took the opportunity that you can say this year's situation presented us with to evaluate.

**Viraj Kacharia:** So, what implication it will have on the cost base especially in the seed business?

**S. Nagarajan:** So, the way we are looking at it is that it will provide us with gains on both the sales front as well as of the cost front because in places where we have strong preference for one category, but not necessarily in the other category, we are expecting to leverage the channel strength for that we have in that particular category. As far as the cost is concerned, there would be some optimization for sure because in certain geographies, which were, let us say under contributing from revenue contribution point of view, we may have had certain number of cost heads that we would be incurring which will obviously now get optimized. Overall, we are expecting what you can call a productivity growth which is you can say revenue over expenses and our aim is to get between 15% to 20% improvement on the productivity.

**Moderator:** The next question is from the line of Jainish Bindra from Arpwood Capital.

**Jainish Bindra:** I just have a question regarding the seeds department, when we talk about that we are going to building a Rabi crop portfolio like seeds for the Rabi portfolio and vegetables, are we only looking at developing it through like royalty contracts that you were talking about or also Brownfield opportunities in this area?

**Sanjiv Lal:** I am sorry, I still didn't get it, but we are having our own research program to develop our Rabi portfolio as well as the vegetable portfolio. We have a full-fledged research program. We are also looking at in-licensing opportunities if that is the second part of what you are asking on both. In fact, in vegetables we do have a number of in-licensing partners that we take to market it. So, it is a combination of both, it is not only in-house or it is not only in-licensing.

**Moderator:** The next question is from the line of Vishnu Kumar from Spark Capital.

**Vishnu Kumar:** I just wanted to ask, how is the current season in terms of the Rabi and how has it picked up and how is the inventory in the system, is it slightly higher or how are you seeing the current trends?

**S. Nagarajan:** I think you are referring to the Indian market. In the Indian market, our inventory levels, we are quite satisfied with our channel inventory. As you are aware, the reservoir positions are very good. At this point in time, they are actually higher than the long period average, right, I think it is at about 80% of capacity which augurs very well. In fact, the agri credit flow in quarter 2 has also been very good. With the abatement hopefully of COVID, we should have a positive Rabi season. This is our thinking. Of course, the issue is going to be in terms of raw material availability and supply side challenges more than from the demand side.

**Vishnu Kumar:** So, should we expect a strong growth or what do you think will be the growth likely in single digits or any rough idea in your opinion because you are seeing the current trends there like could it be pretty strong because last year also was pretty strong, so just trying to understand from that?

**S. Nagarajan:** If you compare some of the indicators at this point in time, last year also, like you correctly said we had very good reservoir storage, it was 87% last year, 80% it is at this point in time which are both higher than the long period average of 77%. Last year, the agri credit was in the second quarter about 5% to 6%, this year it is running between 11% to 12%, September rains have been good, October rains also I think have been quite high in fact in many places. There are challenges consequent to that as well. So, difficult to sort of put down a particular percentage, but certainly we are thinking that it should be similar at least to last year.

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

**Abhijit Akella:** Just couple of things, one is, on the margin front for Rabi, with the input cost pressures as well as there is probably slightly higher inventory line with the channel in general at the industry level just given the weak Kharif season, so any color in terms of any discounting or that kind of thing that is industry is resorting to and whether we also having to participate in that and if so, what margin implications that might have on our domestic business?

**S. Nagarajan:** There are bound to be channel inventory differentials and even company inventory differentials between the different companies depending on when they may have bought or when different competitors may have bought their products, their raw materials. So, that is something which is bound to happen and it is already evident in the market with differential prices prevailing for different formulated products in the domestic market. So, our approach have been in terms of looking at our cost increases and trying to sort of see how we can segment the products, the markets that we have into those where we are able to pass on reasonable portion of the cost increases and certainly there are products markets where we would have challenges as well, not just because of competitor action, but also because of cross segment movement that the farmers may undertake, if the price points become far too high. So, that is the way we are kind of going forward. It is a fairly challenging situation, very difficult as you can appreciate to precisely determined, but this is what we are focused on trying to sort of identify geographies, crops, products, cost changes, inputs from the field with regard to the market position of inventory, the segment itself and then kind of arriving at our own approach with regard to pricing.

**Abhijit Akella:** And the second thing was just two parts in the second one, one is, is it possible to give us a breakdown of domestic crop care revenue growth for the first half between volumes and prices? That was one and second on the international business with all these developments happening in China, lots of chemical prices rising, do we see ourselves as a net beneficiary of that in the sense that maybe some of our product prices also start to move up like say our Metribuzin or Pendimethalin or some of those or is it more of a concern to us on the raw material side?

**S. Nagarajan:** No, I think there are changes in both the raw material cost as well as our prices. Now, this is evident across all the products, even on the international front. Now, what may be more important I guess is the spread, how the spread might change between the price point and the cost point and that varies for different product. At this point in time, it is a little bit difficult to sort of predict quite a long time into the future because there are also supply availability challenges which is I think another important factor. So, that way it is a little difficult to predict how the spread might change, but in a general sense, it is not only cost increase, it is both the cost increase and the price increase. And your other question was volume growth, volume growth for the domestic business in Q2 was out of the overall growth we had about 3.3% in quarter 2 and the volume is 2.4%, the rest of it was price.

**Abhijit Akella:** And for 1H, sir?

**S. Nagarajan:** First half we had almost 13% growth in the domestic business, 11% volume and 1.7%, 2% you can say price.

**Moderator:** The next question is from the line of Tarang Agrawal from Old Bridge Capital.

**Tarang Agrawal:** Sir, you suggested that the Rs.294 crore H1 FY22 seeds business revenue is after accounting for 39% to 40% sales return. When I back calculate that translates to a placement of about Rs.480 crore, is this accurate or?

**S. Nagarajan:** This is accurate, I was just wanting to also clarify that question that came in earlier. Yes, that is absolutely right, Rs.294 crore is the 60%, the portion that is recognized as revenue that is after accounting for 40%, yes, so rounding off approximately Rs.300 crore revenue, so Rs.500 crore placement, 40% of that about Rs.200 crore is the return measured in NRV terms. These are not in cost terms; this is in revenue terms. The rest of it is what is the revenue. You are right.

**Tarang Agrawal:** And if I were to compare this to figure of last year, what would that be in terms of percentage?

**S. Nagarajan:** Last year, we had about 35%.

**Tarang Agrawal:** Sir, when you say that cotton is about 12% to 13% of your overall seeds business that is on this Rs.300-crore figure, correct?

**S. Nagarajan:** You are right.

**Tarang Agrawal:** And your biggest would be rice obviously?

**S. Nagarajan:** Paddy, yes.

**Tarang Agrawal:** And what proportion would that be approximately?

**S. Nagarajan:** Paddy would be about 40% in H1.

**Moderator:** The next question is from the line of Resham Jain from DSP Investment.

**Resham Jain:** I have just one question, in the upcoming Rabi season, what we are hearing is that there are shortages of fertilizers especially DAP and material like that and that may have impact or bearing on the overall acreage and the output, given that you are quite upbeat on the Rabi season because of water levels, could this be a spoil spot in the whole upcoming season, just your thoughts on this?

**Sanjiv Lal:** No, I think while this is certainly a challenge that the farmers are not getting access to fertilizer, but from my past experience even if there is some underdosing of phosphatic fertilizer for one season, it will not have any significant bearing on the productivity, so that this is something that I have understood from my past experience and working in the subsidized fertilizers. So, it will be a problem, but it should not be a major problem.

**Resham Jain:** And will this be a more problematic in some specific geography compared to others?

**Sanjiv Lal:** Well, I think these questions are better asked to those who are in the industry because they will know exactly what their placing where, so for us it is only speculation as to where the problem will be.

**Resham Jain:** Because I was just thinking from agrochemical consumption perspective also if fertilizer itself will be a problem, let us say, we are hearing more from North, so just thinking from that perspective?

**Sanjiv Lal:** I think there may be opportunities for the farmers to use alternate crop nutrition kind of products, so there may be an opportunity for products to be used, let us see.

**Moderator:** The next question is from the line of Deepak Chitroda from Phillip Capital.

**Deepak Chitroda:** I have two questions, first of all is on the growth part of it, so as you mentioned that water reservoir level has been pretty good and that is auguring well for Rabi season, in fact, if I look at last year's growth, we have seen almost average growth of about 40% last year, so do you expect that kind of a growth or probably high single digit growth is expected in the domestic side and second part is basically on the, what is your view in terms of the export market, especially if you talk about in terms of the demand side for North America or may be South America side?

**S. Nagarajan:** I think on the Rabi domestic market from the demand side point of view, clearly all these variables that we are talking about are very positive. Now, in terms of how the availability and how the prices of whatever is available is going to shape up will be a very important factor that may determine the growth for a specific industry, let us say, crop protection for us or for a specific company depending on the portfolio and the price points of the products and stuffs like that. So, that would probably be an important factor to take into account, but from the demand side, yes things we do think are going to be quite positive. Export momentum is quite positive again at this point in time, just like we had said in Q2 we had 22% increase that continues in terms of positive momentum. Of course, there are challenges in terms of freight that is logistics and of course on the supply side. So, those are the challenges, but again the demand seems to be quite good.

**Deepak Chitroda:** And my second question is regarding the cost as you rightly mentioned about the RM cost going for most of the chemicals, but do we expect additional cost coming up because of the unlock which is happening in the domestic market in terms of sales and marketing cost or advertising cost or travelling cost, so do we expect that cost also going up in H2 or in the coming quarters?

**S. Nagarajan:** Yes, definitely I think in terms of the demand generation work if you look at our own Q2 over Q1, we have increased progressively the demand generation work that is happening through physical meetings and hopefully if the COVID subsides, we are continuing to do it with lot of safety measures and all of that, but I think as the markets open up and as things improve on the vaccination front, we should expect for more of demand generation. While it may be an increase in cost on specific heads, I guess the expectation also is that it will help in being able to position the differentiation in some of the products which we have hitherto not been able to with limited physical movement. We have had to depend on digital methods which we will continue to do for specific reminder type of communication, but certainly for more differentiated products as well as in the new products, scaling up of the new products, these things will certainly find the benefit.

**Moderator:** The next question is from the line of Rohan Gupta from Edelweiss.

**Rohan Gupta:** Sir, question is on our higher raw material availability from China and dependency on China for raw material, I believe that roughly 40% to 45% of our raw material we are dependent on China given the current prices, sir, how much finished goods inventory and raw material inventory we have rightfully with us and do you see that even good monsoon in Rabi can have impact on our business because of the raw material availability, if you could share some more detail on that, sir?

**S. Nagarajan:** So, typically, what we have been doing is to stock up on the key raw materials for the different active ingredients and we are at this point in time, we look at metrics which is raw material on hand plus what is on order. Now, what is on order is something which may have already been shipped or it may be something which has not yet been shipped. In the past, we have been able to look at those combined measure and feel, let us say, comfortable that we are able to have a certain level of coverage, let us say, 3 months coverage, but what we are increasingly doing is to focus on what we actually have on hand and what has actually been dispatched because things which are on order, but not dispatched, we are finding that there are situations where for various reasons the manufacturers are not able to supply, particularly if it is China sourced product. Therefore, the planning horizons have become far narrower. We are trying to stock up as much as we can. For many of the products, for many of the active ingredients, we have adequate stocks to cover for the next 3 months, but there are may be one or two products, where we are still waiting for material to be shifted and given the uncertainties that are there at this point in time, the risk if you can call it like that of some kind of a pause in production that kind of a thing certainly exists for this one or two products, but in terms of the domestic market, now how much of this really is relevant for this particular season because not all products, not all active ingredients go into a relevant formulation for this particular season. That way if one were to look at it, I think we are reasonably covered as far as the domestic market is concerned.

**Rohan Gupta:** But our B2B business and institutional business and export market can be severely impacted in terms of unavailability of raw material from China?

**S. Nagarajan:** No, I didn't say that, let me just restate this, for most of our products, except for maybe one product, we are covered as far as Q3 is concerned, but even for that one product, material is on order, if it is shipped, we should be covered only and not severely affected, I mean I think some of the terms that you mentioned, I just wanted to clarify out.

**Rohan Gupta:** And sir, the price would have gone up significantly in terms of even the material which we have contracted, do you feel that we will be able to pass it on or there may be some more margin pressure which we can expect in second half?

**S. Nagarajan:** We have witnessed significant cost increases and I think as Sanjiv mentioned in the opening remarks, towards the end of Q2 or early part of Q3, we have taken price increases of 8% to 10% and we are witnessing still increases in cost, even in October. Now, we have to navigate through this depending on the product, depending on the competitive advantage that is there. It would be a little difficult to give an overall answer whether we will be able to fully pass on the cost increases, but certainly it is a challenge. I think it is an important challenge and that is what we are really focused on as management.

**Moderator:** We take the last question from the line of Manish Jain from Moneylife Advisory Services.

**Manish Jain:** My first question is that under the contract manufacturing segment, will we be targeting innovative molecules in the future?

**Sanjiv Lal:** No, I think Manish I had clarified that. The products which are still under patent where we feel that Rallis may never be preferred partner for any of the innovators because we are also competitors to most of the innovators, so we will perhaps not see any contract manufacturing happening in that category, if that was your question.

**Manish Jain:** Second question is, just wanted to have a brief on the concept of 'One Rallis'?

**Sanjiv Lal:** So, fundamentally here, the approach of ours is to have an org structure where we have single face to the farmer as well as to the trade and you will recall that the Rallis standalone before we merged the Metahelix Life Sciences into Rallis, Rallis was also doing some business in seeds which was really being sourced from Metahelix, so it is not that the teams have not handled seeds, so as has been articulated by Mr. Nagarajan, they have various models for go to market for companies which are having both seeds as well as crop protection and we are taking this as a pilot with every intention of making it give the kind of benefits on productivity that we have internally discussed and it will be a common face to the trade as well as to the farmers and we are resourcing it appropriately for the market development activities. So, this is being done only for the Eastern states, we will have all our learnings and improvements that we will do and then we will take a decision on how we need to extent it to other parts of the country, but as of now, we are focused on making it work for us in the Eastern part of the country.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

**Sanjiv Lal:** Thanks Janice and just to sort of conclude this call, it has certainly been a challenging quarter for Rallis particularly on the seeds front. We do believe that this is something that is a near term challenge and we will work towards setting it right for the coming season and it is an area of growth for us. We will continue to focus on the R&D efforts for bringing in more differentiated products. Our pipeline of R&D appears to be very robust and we are hopeful that in the next two years, we will have much differentiated portfolio which will form the basis of our future growth. As far as the immediate challenges are concerned for Rallis, it is really ensuring that some of the supply chain challenges that we have we are able to navigate through. The costs are practically changing on a day to day basis, so the whole approach that we have to sourcing materials is now being looked at and we are trying to make every effort to ensure continuity of all our operations without any disruption, so there are price increases which we are factoring into our costing and to the extent possible, we are passing it on and even on the logistic side, there are couple of very innovative things that the teams have been working on in terms of ensuring that availability of containers and shipping for our exports business, so that has actually helped us during the previous quarter. We will continue to build on that and till next time when we again meet for the analyst call in January, all the very best and a very happy festive season to all of you. Thank you.