



Rallis India Limited

Q1 FY'25 Earnings Conference Call

July 19, 2024

Moderator: Ladies and gentlemen, good day and welcome to Rallis India Limited Q1 FY'25 Earnings Conference Call.

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

Gavin Desa: Good day, everyone, and thank you for joining us on Rallis India Limited's Q1 FY25 Earnings Call.

We have with us today Dr. Gyanendra Shukla – Managing Director & CEO, Mr. S. Nagarajan – Chief Operating Officer, and Ms. Subhra Gourisaria – Chief Financial Officer.

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

I now invite Mr. Shukla to begin proceedings of the call.

Dr. Gyanendra Shukla: Thanks, Gavin. Good morning, everyone and thank you for joining us today on our Q1 Fiscal Year '25 Earning Call.

As mentioned by Gavin, I have alongside with me Nagarajan – our Chief Operating Officer and Subhra, our CFO.

Let me begin the discussion by getting into the industry landscape initially, post which I will discuss Rallis specific developments.

On the industry side, we have seen an early sign of demand recovery after a long time. All of you know that the couple of years have been a little bad. In domestic markets, there is a positive sentiment primarily driven by monsoon prediction of IMD. There was a deficient rainfall till June '24, that did impact first quarter in fiscal year '25 sales. But of late, monsoon has started really picking up well and the kharif sowing is registering significant growth of about 10% as compared to last year.



If you look at key crops, Paddy is about 21% up, Soyabean about 30%, Maize 34% and pigeon pea about 191%. This is one crop that has seen a significant increase in acres driven by commodity prices.

From field reports, what we are hearing, cotton acreages have reduced significantly in northern part of India, there's one particular pest called pink bollworm that has been bothering the farmers.

However, on the export front, recovery remains soft with the key markets like Brazil, US, SEA. So, while volumes have started picking up, prices continue to depress due to oversupply from China.

We think with the ongoing season in the Northern Hemisphere including US, should lead to some balancing of the inventory and hopefully things will move start looking positively from there.

Coming to Rallis specific developments, we have started the year with overall revenue being flat, I mean, when you compare with the last year, but there are some green shoots there, so for example our domestic crop care business has delivered a positive growth and seed business, as we had indicated in the previous call, we had supply constraint, as a result we had to take the degrowth.

And crop care, I think, is largely domestic as international business continues to remain under pressure because of the price.

EBITDA for the quarter stood at Rs.96 crore; it is lower by about 13% compared to the same quarter last year with a gross contribution margin of 30% and PAT for the quarter stood at Rs.48 crore compared to the Rs.63crore reported during Q1 of fiscal year '24.

Getting more specific about the individual businesses, starting with Domestic Crop Care business - Crop prices are relatively better, particularly for pulses and oil seeds. Favorable monsoon was the primary growth driver for the business. Input prices were relatively stable during the quarter which in turn resulted in better margin profitability for the business.

In terms of Product Categories, herbicide is one area which is growing faster driven by the labor dynamics in the country and has performed well for us. Having said that, I think we still have a gap in our herbicide portfolio, which we are working on. On the back of it, crop care delivered strong volume-led growth of about 8%. Growth was good in both domestic crop protection and crop nutrition business with year-on-year price drop impacting growth.

Now, as we see the domestic market, I think prices are stabilized, but our strategy is to continue to grow the business with more thrust on developing differentiated product. We are improving our front-end capabilities based on the theme of customer centricity . And as we work more on this, you will start hearing more about this as we move forward. Our endeavor will be to build a more connected organization leveraging digital. I think digital will give us a scale and that's where we will get closer to the customer.

We have also progressed well in our supply chain management strategy, linking demand and supply planning with SAP IBP going live. It was launched in the month



of August. So, work is still going on, but this will help in driving efficiencies on all the fronts.

Crop nutrition had a very good quarter and we had a growth of roughly 31%. We also commissioned a Water-Soluble Fertiliser Plant during the year. The crop nutrition as I mentioned last time is continuing to be our strong pillar for the long-term growth and will continue to invest in this segment.

Coming back to International business, Revenues stood at Rs.133 crore, which is lower by 5% compared to the similar period last year, though we had a decent volume growth of about 19%, but the price challenges are really impacting overall growth from a revenue perspective.

We have some old products like Acephate, Hexaconazole and Pendimethalin where prices continue to remain muted. Metribuzine prices actually are almost at the level of half compared to what they were two years ago. On top of that, sea freight has also seen steep hike as the Baltic Dry Index has doubled over last year, impacting margins.

In terms of our key products - Acephate continues to face challenges in Brazil and US, Pendimethalin operated at low capacity, but we are confident on long-term prospects of this technical. So, we are more optimistic about Pendimethalin relative to Acephate in the long-term and Metribuzin and Hexaconazole, exhibited steady traction in the US and Southeast Asian markets.

We also progressed well in terms of commencing new relations with the global majors for some of our old technical. In the contract manufacturing business, we are also working on expanding formulation alliances with global players to build a more resilient portfolio. This will help us improve the capacity utilization of our state of our manufacturing facility in the chemical zone in the Dahej. We are confident that this business will meaningfully contribute to both top line and bottom line in the years to come. So, that's on the chemical side.

Shifting gears to Seed Business – we had the seed supply shortage in several crops, and as a result of that, our revenue has dropped by 16%, but with the prudent cost management and pricing, we have been able to improve our GC by 4% compared to similar period last year.

We also have invested in technology, a tool called Seed-Say which uses AI and ML forecasting abilities to really ensure that optimal placement is happening in the market.

I am also very happy to report that the Diggaz the hybrid cotton, which we had launched in the North, has seen a good volume growth and this is on the top of that significant lower cotton area planted in northern part of the country. As far as other crops are concerned, the liquidation trends are satisfactory as rains have picked up everywhere almost now.

In terms of our long-term strategy for the business, we are on the right path with the sharpened portfolio choices and driving sustainability, profitability with measures being taken across the value chain.



In conclusion, I think near-term outlook for the business particularly international remains challenging at least for the next three months; however domestic business with the rain and the commodity prices being good is looking positive, we are very confident and optimistic about the overall growth prospect in the medium-to-long-term.

Furthermore, our efforts are now directed towards improving , customer connectivity leveraging the digital, sharpening product portfolio choices. We are going to work more on a differentiated product, also going to phase out some of the products that do not make money or are too small as they bring supply chain complexity. We are working on new partnership and alliances to build renew our portfolio.

That concludes my opening remarks. Now, I will hand it over to Subhra, CFO for a detailed analysis of the financials.

Subhra Gourisaria: Good morning, everyone. I will quickly walk you through financials and after that we can start the Q&A session.

Our revenue stood at Rs.783 crore as against Rs.782 crore for the same period last year. Volume growth was encouraging at 9%, but price challenge especially in the international market impacted the overall growth, also as Dr. Gyanendra alluded, supply challenges has impacted the growth in the business. EBITDA for the quarter stood at Rs.96 crore against Rs.110 crore for the same period last year. PAT for the quarter stood at Rs.48 crore as against Rs.63 crore for the same period last year.

In terms of domestic business, Crop Care business, had a good growth of 13%. Due to poor rabi crop, we had high trade inventory which also we corrected during the quarter; however, now we believe sentiments have improved with new MSP and monsoon progressing quite well.

As far as seeds is concerned, we did well despite reduced cotton acreages. We have made calibrated placements considering the inventory level and are hopeful that our liquidation trends will be better.

Moving onto International business, the high inventory and benign prices continue to impact sales and profitability. In terms of performance for key technicals, we are working on expanding our customer base and product portfolio to build a more resilient business in this front. Our efforts continue to be directed towards driving focused execution both at the front and the back end. This includes portfolio optimization, territory rationalization, removing overlaps wherever it's there and looking at driving cost efficiencies and simplification across the value chain. Our actions around portfolio refresh continues and we have launched five new products in crop care and 14 products in seeds during the quarter.

We will continue to be relentless on improving capital efficiencies both for working and fixed capital. We do have a very healthy cash balance as of 30th June as well, and with no external borrowings.

We are also very prudent in CAPEX investment and envisage our expense would be in the range of Rs.100 crore.



In summary, we are implementing various initiatives in our drive towards achieving consistent competitive and profitable growth. That concludes the remarks. We can now start the Q&A session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management Pvt Ltd.

Viraj Kacharia: Just a couple of questions. First is on the gross margin. You talked about an increase in prices in the seeds and cost management. So, the margin in the seeds is quite healthy despite the drop in sales. And if one looks at the growth in B2C business, one would think the overall gross margin per se for the company as a whole should be better. The question is that- s it that the international business is making a negative margin or a loss in this particular quarter? If you can just give some perspective what is driving this loss because if I look at other industry B2B players, they're seeing an improvement in margins and recovery in sales as well. But for us, it seems if we kind of dissect, it seems the B2B business has incurred a loss. So, that is one.

Subhra Gourisaria: See, gross margin has come down not because of international business making any negative margin. So, we did not make negative margin in the international business. We have mentioned in the earlier calls that we were taking swift actions in terms of liquidating old inventory. Overall, spreads has indeed compressed and hence the margins are lower than what we have made historically, but we have not made any negative margin. The overall margin compression has come, a) because the mix has overall become negative because every year Q1 seeds is a larger proportion of the portfolio and seeds mix has come down as you would have seen seeds has had a negative growth compared to crop care. So, while the mix is positive in terms of domestic crop care versus international, it's adverse in case of seeds. Secondly, certainly in case of domestic and international, the margins are relatively poorer than the historical margin. Does it help answer your question?

Viraj Kacharia: No. See, if you look at seeds margin per se right, you did around 22% EBITDA margin in seeds as against 20%. The drop is hardly Rs.4 crore on a year-on-year basis. So, even if you had just for the drop in sales and see you have kind of done a far better job in managing the profitability in seed. In domestic, if you look at the environment, you're reporting a very strong healthy volume growth. So, one would think that the overall margin either at the gross margin or the EBITDA level would be relatively better. But that is not the case. The only thing which adds up is either the loss or the sharp compression in international business. So, that's what I was just trying to confirm. And the related part was, see, in other expenses also, you have seen a jump from Rs.125 to Rs.135 while sales is largely flat. So, any one-off there?

Dr. Gyanendra Shukla: Let me first give you my perspective on this margin. So, obviously seed we are up and as I said earlier, we are going to be managing seed for profitability. Now, when it comes to B2C or B2B in crop care, you have to understand that for us to significantly move margin when I am comparing with company ABCD, we have to see the product mix they have, or we have. We are a company where our herbicide portfolio which really for most companies in quarter will comprise most of their sales. Herbicide is one area where I would say we are not very strong. So, that is something as we work on portfolio in herbicide. I think that will start changing. So, I think it's always a combination of what product mix I have got and what others have got. So, we are aware of this fact, and I think our attempt is to start looking at portfolio and start cleaning up so that we are continuously improving our margins and that will only come from portfolio churn is a phase out process, it's not a start and stop switch.



Viraj Kacharia: On the other expenses, sir?

Subhra Gourisaria: So, the other expenses, Viraj, has gone up; one, obviously because we spoke about the contribution to electoral trust and there is also an element of increase in freight and some investments that we have done behind digital sitting there including migration to SAP HANA.

Viraj Kacharia: If you look at 2024 in the annual report, we talked about Rs.28 to Rs.30 crore of spends in the P&L towards digital and IT spends. So, the idea was to understand how these spends are helping us either in terms of better sales throughput or cost efficiency, so if you can give some examples? And if you can also help us understand how we should understand this run rate of spends going ahead.

Dr. Gyanendra Shukla: So, if you look at all our digital spend actually you can categorize into five categories. One is obviously the back end is very, very important, which is SAP S4 HANA where we are going through complete changeover of our ERP system. That obviously takes time and money. On our other efficiency related, we are building a tool called "Drishti" and I think it has been talked about in the past and that's where we are trying to develop how can we use AI and ML technologies leveraging satellite data, etc., to help farmers warn about flooding, drought, pest pressure, so that they can optimize uses of the chemicals on the crop and hence benefit. Because unless farmers make more money, none of the companies are going to be successful. Other things are really our channel-focused. So, we are investing a lot in really getting visibility. One of the challenges we and industry faces is once a product moves from distributor to retailer, there's hardly any visibility and that shows up in the form of return at the end of the season. So, there's something called 'Anubandh'. It's a program we are investing in. It's again digitally-enabled. Really two things: A), we start getting better visibility of what is happening at the channel level. One more step down beyond distribution and other also thing to expand our footprint of retail, so that we are reaching to the unreached customer. The other areas where we have is seeds say where we are trying to use the planning tool to really say how we should plan and how much we should plan and we are trying to work on some of the leading indicators to really understand how much placement we should make of the seed, because seed is one category, if you place too much, if it comes back, it also leads to a lot of write-off. And the other thing is really another tool which is more related to products and planning, tracking, improving the efficiency seeds, sure. So, there are four, five initiatives and I think six one which I have been talking is really customer-connect. So, we are trying to look at a lot of internal things from a company perspective, strong ERP is important. Then we have done something which are related to production and tracking and retailer distribution and now we are talking about customer. So, I think as we move forward, digital investment is going to further go up because we would like to understand customer and it's very, very important to understand your business to get lead indicators ahead of time, because that helps you in planning and forecasting business better. And the other one we probably have not talked about it. I think manufacturing is one area where we are also evaluating if there are options and what kind of required automation we can bring, that can bring efficiency and timely delivery because everything is very very important. So, we are also looking at automation in manufacturing and that has not been done yet. But customer and manufacturing automation are two focus areas. Others have started, will continue to improve and invest in those areas. But these two are going to be fresh investments.

S. Nagarajan: Also, to add, the reference was about last year we had invested in a supply chain tool as well. SAP-IBP integration, we are branding it as "Plan Guru" internally and of



course that is something that will help us in better forecasting, better logistics. So, the question of how it will help us in improvement in operating efficiencies, we believe that this can actually help us in managing our stock flows much better and also be able to respond to demand changes that inevitably happened during the course of the season in a lot more agile fashion.

Dr. Gyanendra Shukla: I mean, in nutshell, I can tell you. So, for example, this year nobody would have thought the farmers would not plant cotton in the North. Such a significant drop will happen. Some of the areas actually drop is to the extent of 50%. So, what are the things we can do digitally to connect with the market better and can get some leading indicator to manage business better. I mean, pulses going up, Tur planting going up by 200% is something very unprecedented. Because land is limited in the country, if they're growing so much of one crop, that means the other is going to suffer.

Moderator: The next question is from the line of the Darshita Shah from Antique Stock Broking.

Darshita Shah: The first question was regarding the supply constraints that we have been seeing in the seeds business. If you could elaborate a little bit on these supply constraints, one? And two, when do we expect this to smoothen?

Dr. Gyanendra Shukla: So, seed supply chain if I may say is very complicated. What I want to sell in 2025 for example, I should be taking production this year, right, and parents of those seeds should have produced in 2023. So, it requires two years of planning. The second thing is seed production for majority of the crop, we are dealing with happens in the rabi season of southern India. So, most of the seed is being produced in Andhra, Telangana and little bit in Karnataka, Maharashtra and Tamil Nadu. Now, last two years have seen significant drought right from the month of September all the way to November, December in these parts. So, there were two years where there was excess rainfall planting got delayed and then last year was significant water shortage, as a result, there was competition for what we call seed crop acres. So, those are the things that led to really less production. The other thing is, we are raising our bar on the quality standards because when seed comes back, you have to test it and check it for its integrity from a purity and germination perspective. So, all those things also sometimes lead to shortages. Now, the other thing is this is one category where either I keep too much of inventory, right, in anticipation of demand, which also means I lock in working capital for a which is not desirable. So, we are trying to fine tune in such a way and my colleague, Nagarajan mentioned some of the tools we are using to really forecast demand and produce accordingly. So, it's a combination of things. It's a complicated supply chain. I think we are just trying to manage the whole business for profit rather than trying to say, we will just shape the volume in this because seed inventory can come to haunt us very badly. It all becomes a write-off.

Darshita Shah: Second one was a clarification. I think Subhra ma'am mentioned that we have seen a margin compression in the domestic market as well. Did I hear it correctly?

Subhra Gourisaria: Relatively yes, you're right, Darshita. Because also I said that we corrected inventory from rabi and rabi inventory made higher margin for us. In terms of the kharif placement, we are well on track in terms of the margin as well as the plan that we had. But now monsoon is picking up, hopefully the liquidation should be improving.

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



Abhijit Akella: Just a couple of questions on the seed side. Would it be possible to give us some flavor of the crop wise breakdown of the seeds business, just rough numbers would also be great? And in terms of the YoY growth decline that we have seen, is that coming primarily from the non-cotton categories, how should we think about that?

Dr. Gyanendra Shukla: So, if you see our business, the two areas where we had supply challenges primarily were hybrid maize as well as hybrid paddy.

Subhra Gourisaria: So, North cotton actually we said we had very good momentum. South and West cotton we will have to yet see how the liquidation progresses, but it's not a big part of our portfolio. So, paddy and maize were the bigger dip for us.

Dr. Gyanendra Shukla: And they are a significant part of our revenue.

Abhijit Akella: And just in the context of this pink bollworm infestation in the North, what's your early sense of how Diggaz and your other hybrids are sort of coping with the challenge of the pest attack over there? Do you see them sort of withstanding the attack and thereby regenerating better demand for next season from the farming community?

Dr. Gyanendra Shukla: So, I think it's a very, very difficult situation for the farmers because each company has a common denominator of Bollgard gene as their technology platform. So, seed per se cannot control the pink bollworm, right. So, whether it's Diggaz or anything else, any competitor product. What we are looking at is because our seed in the last two years has performed very well in the farmers' field in comparable situations. It's all always relative performance. Everybody has seen the bollworm issue. Our team is on the ground and we are trying to really educate farmers what kind of strategy they can adopt from crop protection perspective to save their crop and every company is trying to do that. But given everything else being at par, I think Diggaz has performed well and that's why demand was very high this year.

S. Nagarajan: Maybe if I can add a little bit, Abhijit the purchases for this year have been very, very encouraging and obviously the purchases for this year are driven by the performance and the experience over the prior years and therefore if you kind of recall we had moved from 2,00,000 packets couple of years back to about 4,00,000 packets last year, clearly demonstrating that the proposition of a shorter duration to kind of beat the pink bollworm impact has been very well received and that is what has played out in this particular quarter for us. We believe the liquidation also will be very high. In fact, it is in some of the pockets where it is complete. The experience of the farmers this year is going to be very critical for the future. So, the key monitorable from our point of view and which of course we will really be focused on is the experience in terms of the yield after two pickings, for example, and kind of see how it compares with various other brands. So, I think that's really where we are, and we are positive at this point in time.

Moderator: Next question is from line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question is on the export demand especially for our key crops. If you can highlight the pricing and demand trend there, because I think in the initial comments we did mention that Pendimethalin had a lower capacity utilization wherein if I am not wrong, we were planning to expand the capacity, so if you could highlight some comments there?



Dr. Gyanendra Shukla: So, of all the molecules we produce, I think Pendimethalin is one which has a good future, it has continuing demand. Having said that, I think industry is still dealing with the oversupplies from the previous productions. So, other product where I think we face challenge is really acephate, because that product not only could come under significant regulatory review but suffers from the same fate as it is only sold in certain markets,. So, how the supply situation is in those markets determines at what price we can sell. So, I would at this point of time say Acephate is a larger challenge than Pendimethalin. Because, I mean, we like it or not, China will be there, they will continue to supply. We also have to start internally looking to see how we become a more efficient producer there and be competitive.

Ankur Periwal: So, from a full year growth perspective, given the pricing is what it is, would it be fair to say that large part of the growth will be volume-led while pricing will still be an overhang in terms of overall revenues for exports?

Dr. Gyanendra Shukla: So, it's very, very difficult to say what will happen 10 months from now, eleven months from now. What we see is, if you start splitting our business in segments, as I said, domestic formulation demand is looking good for the various factors I mentioned. Seed, the majority of our season is over. Primarily the bulk of the business happens in kharif, and the only adjustment would be related to how much return comes versus what we have estimated. So, that adjustment you will see probably in the subsequent quarters. And domestic season is actually coming big. Then you have obviously CSM business. I think CSM business also has the same dynamics as international business while contracts are slightly different. On international, I guess if you go around the world, commodity prices are low, but consumption is taking place, prices have not improved. I do not know either I am able to predict, there's no crystal ball in my hand to say what will happen. Having said that, I think we have to start becoming efficient on our cost and the customer relationship around. That's the only way to manage the situation and start looking for new molecules, new products and phase out some of the older ones.

Moderator: Next question is from the line of S Ramesh from Nirmal Bang.

S Ramesh: So, looking at the current progress in the monsoon, is it possible to give us some indication of what is the kind of volume growth you can expect in the domestic market? And is the 19% volume growth you reported in exports kind of sustainable over the next few quarters and what is the sense we have?

Dr. Gyanendra Shukla: So, obviously I cannot give you a percentage, it's very difficult to say what percentage, but given the sentiment, we are expecting a significant growth and you have seen that has happened in the past quarter as well. Because when the prices are decent and planting is there, in a rainfall situation, certain farmers do try to maximize their yield in return and that's where crop protection do play a very, very important role. Our attempt would be to try to take full advantage of the situation which is in front of us.

S Ramesh: So, in terms of the export volumes, do you see that trend continuing?

Dr. Gyanendra Shukla: So, export I think obviously from a volume perspective, things have started moving, pricing is something nobody knows. And again, it depends on the molecule we are talking because every molecule has its own dynamics in market.

S Ramesh: So, in terms of margin, is there some sense you have in terms of when you can see margins achieve what you did a year ago say to take a full year?



Dr. Gyanendra Shukla: I cannot give you numbers, but all I can tell you are the initiatives we are taking and some of these initiatives for us being a seasonal business, you do not see in a very short period of time. So, fundamentally we are trying to look at our organization differently trying to get it more focused on the business units. We are double dialing up on partnership and collaborations. As I said, we are looking at portfolio. But you also have to understand portfolio, you have to do analysis and you have to make sure you're able to exhaust inventory. So, transition to more profitable differentiated product itself is a journey which means you have to identify old product, do that proper analysis, phase out them. But I said look, crop nutrition is looking very attractive, and this is something we want to pursue. It's a relatively higher margin and seed also is a higher margin, and we want to manage for profitability.

Moderator: Next question is from Rohan Gupta from Nuvama Institutional Equities.

Rohan Gupta: Sir, you mentioned that rationalization of the portfolio in agrochemicals where you want to focus more on herbicide portfolio which is weak. So, what strategies you are looking at whether you are getting into more collaboration with the global players or going to develop your own molecules launch by yourself more in generic or in special categories or specialty chemicals. So, what is the strategy you're going to adopt to strengthen your product basket?

Dr. Gyanendra Shukla: So, I said two things, not only herbicide, crop nutrition. I also said even in insecticide and fungicide which is our larger chunk of the portfolio in crop care. There also our attempt is to slowly phase out low margin and start bringing new and differentiated product where margins are relatively better. Now, obviously we are not looking at doing everything on our own. And I have been talking about partnership and collaboration as an important part of the strategy so that we are able to partner with the companies both global as well as Indian companies to bring those products and bring what you call refresh the portfolio. Now these things do take time, it's not something now you can do overnight. So, it's a combination of things, not one thing.

Rohan Gupta: You mentioned that definitely you will be looking at more of the collaborative partnership, I mean coming with the global player.

Dr. Gyanendra Shukla: I think we are moving to a mindset to say we have to make a smart decision, make versus buy, in a world where so many supply chain and product partnerships are available. We have to be very prudent in making a decision. So, whatever is financially better, that's a decision we should make and obviously there's a point on supply chain certainty. So, our decisions are more going to be based on make versus buy, pure economical decision making sure there's a certainty of supplies.

S. Nagarajan: Just to add, the product that we launched in this quarter, one of the products we launched "Mark Plus" is 9(3) product which is in collaboration with one of the majors. So, I think there would be examples and like Gyanendra said it will be a combination of both partnerships as well as prudent buys and in-house products as well.

Rohan Gupta: Sir, similarly, in our export market also you mentioned like product like Metribuzin, and all have seen a significant price drop almost half. However, you have seen a significant volume-led growth of almost 19% in exports. So, wanted to know that this very solid volume-led growth which is in the current quarter. Is it driven by inventory restocking happening globally or the demand has picked up globally, what is driving this? And second with such a sharp price drop in some of the molecules which we are making intermediates, do you see that the gross margin in this business to remain at the lower end only and probably will drag the overall profitability? It was



also surprising to see when Subhra mentioned that we did not have any inventory-led losses in export business despite such a heavy price drop. So, it is not able to figure out the maths that what earlier participant also asked that we had a seed business which is 22% margin in the current quarter, domestic business should have a better margin, but still we had a 12% overall margin, which should be only the function of that international business would have been in a red. But I am still not able to figure out that how the margins are actually in international business or in export business, which is such a drag?

S. Nagarajan:

See, I think you are right. I think the volumes have actually been better on the international business for most of our products, except the two that Dr. Gyanendra called out, one, of course, Pendimethalin and Acephate. What is driving the volume growth in these other products, I think the farmer level demand because of let's say destocking that has played out, the farmer level demand has actually been fairly robust continuously, but I think the intermediary level demand, I mean the stock levels have influenced the volumes that people like us are able to accomplish. So, I think that has certainly changed and we are finding that for the other products, the volumes have picked up. However, prices have continued to remain under pressure and that is why the margins, the contribution levels, for example in the case of the international business have been lower than last year. With respect to your query about the math on this and the earlier caller's question as well, I think one way I can try and help you with that is if you look at our Q1 EBITDA at Rs.96 crore, last year was Rs.110 crore. So, there's a drop of about Rs.14 crore. Four crore is the drop seeds which already Subhra explained, leaving you with a Rs.10 crore drop in the crop care area and a large contribution to this Rs.10 crore EBITDA drop is coming from the international business gross contribution drop, which I just now alluded to. But despite that drop, the profitability, that is EBITDA of the export business because Rs.10 crore is the drop, but it does not really make it negative. So, that's really the math to kind of reconcile the fact that the business has remained profitable and of course, we have had specific deals where we have had, let's say prices with very, very little margin because of the inventory that we were holding. But we have not as an export business lost money is what we would say at the EBITDA level, I hope it helps.

Moderator:

Next question is from the line of Bhavya Gandhi from Dalal & Broacha.

Bhavya Gandhi:

Just two questions. One, how much was the price decline when it comes to domestic markets? We had a volume growth of 13%. Was there any price decline in the domestic market? You have not given the split.

Subhra Gourisaria:

In domestic business, price decline was upwards of 10% and this is YoY decline, the QoQ decline has come down, but obviously because Q1 was on a higher price last year; it's 14%.

Bhavya Gandhi:

With respect to the 13% volume growth, if you can share which products have worked better and with respect to price decline also, which products have not worked better, if you can just throw some light on that as well?

Subhra Gourisaria:

So, large part of this volume growth is coming from herbicide, albeit is a small part of our portfolio, but we have seen good momentum in herbicide business in our domestic portfolio. Plus, some of the recent launches we called out Clasto in our press release as well, some of the recent launches have picked up there. So, that's how the volume growth has come through.



- Bhavya Gandhi:** Where have we seen the price decline?
- Subhra Gourisaria:** So, price declines are coming in parts of the portfolio where we compete directly, and we have to be priced at par as the market is concerned. So, that's where the price declines are coming. Our portfolio, which is not very differentiated and where we have not a great share in terms of brand is where the price decline is largely coming from.
- Moderator:** Next question is from the line of Ravi Purohit from Securities Investment Management Pvt Ltd..
- Ravi Purohit:** Just one broader question, Dr. Shukla for you. Since it's been now four months that you have been in the company. If you could just share what have been your learning so far? I mean Rallis is probably the only Tata group company where profits are same where they were 10-years back, even today. What changes are you looking to make? What has gone wrong over the last 10-years? And how should investors look forward to in Rallis with your experience, what should we expect over the next three to five years, if you could just share that would be very helpful for investors at large to understand where the company is headed to over the next three to five years?
- Dr. Gyanendra Shukla:** So, one of the things I can reiterate, as I said last time was that Group is committed to this business and there's a lot of support, and I have been saying this is the only direct farmer facing business we have. So, there's a lot of commitment to grow this business. And I probably might be just reiterating what I have been saying is so we are in the right businesses, seed is a business, if it is run for profitability is a very, very good business to be, crop nutrition is a very good opportunity where I see a growth as well as healthier margin because beyond bulk fertilizer there's a lot of scope to grow the business and help farmers make more money, because any company unless can help farmer make more money is not going to win the heart of the farmers. So, those two areas from a business sector perspective, very important. And coming to crop protection, I think we have been weaker on herbicide. We are working on it and even this year also as Nagarajan has mentioned, we have launched a product. So, we will continue to focus on that because that is driven by labor dynamics of the country where labor is available, mostly it's not available and is becoming very, very expensive and there herbicide users come to play. Having said that, fungicide and insecticide will also remain very-very important. So, from a portfolio perspective, we are on the right segment. I think what you would see over a period of time, we will launch new differentiated products, we will transition to new product by slowly phasing out old products, which are less and they do not contribute to profitability, and they unnecessarily create supply chain complexity. So, that process you will start seeing. Obviously, it's a phase out. When I say phase out does not mean it will happen next month, it's a process, right? Now from a product sourcing perspective, we do have our own R&D and as we have reiterated in multiple calls in the past that we are trying to now build the integrated facility which should be ready in two years of time where we bring our two R&D capacities together at one center in Bangalore, so we will continue to invest in R&D in the right areas. And from a product sourcing perspective, we are going to be very-very thoughtful about partnership and collaboration. So the mindset of I should do everything on our own, I think we are moving away from that to be a more collaborative partner for global companies as well as domestic companies, because I personally believe we have a very strong Tata and Rallis brand in the market, which works very well for us. So, the same product launched by us can get faster and better traction in the market compared to a relatively unknown company. So, partnership and collaborations are going to be key pillars. I also talked about investing in customer-facing digital



initiatives. So, I think a lot of work has been done and we will continue to augment that which is more internal efficiency planning and accounting and everything else. But tracking, retail and customer and spending time with the farmers, leveraging digital because digital give us a scale, I mean there are only so many people a company can deploy in the marketplace and get access to the farmer and get a consistent message. So, we are going to be investing on more customer side digital investment, that includes training, marketing material, leveraging them to get lead indicators and that helps in planning our business better. So, that's on the digital side. And as I said, in manufacturing also, we are going to have a deep dive to really see how we make sure each of our products remains profitable and competitive in the market and that's where we are not only looking at the product. Our product life cycle at what life cycle they are in the global regulatory framework, where things understand. We are also going to invest in automation to really bring efficiency in our production and supply chain. So, those are broad areas and the last but not the least is investment in people. I think we are moving; we are looking at some significant leadership changes wherever required to bring some fresh thinking and also looking at not only from the perspective of rightsizing the organization. And some of those things as you move forward you will start seeing. Ultimately, the goal is that we should be able to deliver higher return on capital to the shareholders.

Moderator: Next follow-up question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: One is actually just on the cotton seeds business that we were discussing earlier. So, just to sort of check versus the 4-lakh package that we did last year, what's an approximate number we would look to maybe end this year with, obviously, assuming there is no significant sales return? Second thing is just from the Innovation turnover index, the ITI number, given the kind of traction you're getting with clasto and certain others, is there a broad number ballpark where we would expect that next to end up with for fiscal 25? And finally, just your sense on how the margins of crop nutrition compared with the margins in the overall crop care business.

Dr. Gyanendra Shukla: So, I think there's a normalized margin and the margin we make. Our attempt is to move from the margin we make to the normalized margin, right. So. If you say normalize margin as a sector, seeds generally have higher than crop nutrition and crop protection is just below crop nutrition now. The caveat here is that on the mix of portfolio. If you get a differentiated product which is well received in the market, your margins could be very high. But on a macro level, I would say crop protection, followed by crop nutrition, followed by seed.

Subhra Gourisaria: Maybe I will answer your question on cotton. So, cotton, overall, I think we are hopeful that this year we will do highest ever cotton packets between North cotton and Southwest cotton. Obviously, Southwest cotton liquidation trends are yet to be seen. North cotton looking at the liquidation trend, we are hopeful that we should be able to get significant growth over last year's actual liquidation. And this was also in a way constrained by the packets that we got in terms of production. So, if it was unconstrained, we would have got further high volumes. on cotton. Crop nutrition, I think Dr. Shukla already alluded that it does make better margins and given the fact that we share common resources in terms of crop protection and nutrition in terms of front end, we do have a significant benefit in terms of bottom line.

Abhijit Akella: On the ITI please, Subhra, if possible?

Subhra Gourisaria: ITI is difficult to say because it's last four years contribution of it versus the overall portfolio and we do expect the overall portfolio to grow as well. Having said that, our



ambition is certainly as we said earlier as well, that ITI should start moving to the high teens and which is where we are seeing an uptick happening in 1st Quarter as well.

- Moderator:** Next follow-up question is from Darshita Shah from Antique Stock Broking.
- Darshita Shah:** So, we heard that there has been an increase in the technical prices in the domestic market largely due to the freight issues that we have been seeing. So, if you could suggest if something like this is happening with us as well and if this would put some pressure on margins probably sometime in the second and the third quarter in the domestic market?
- S. Nagarajan:** I think we have to look at the time scale. Actually, if you compare it with last year, that is YoY, that may not be necessarily correct, but if you're comparing it in short run, that is, let's say, MoM or QoQ, what you're saying, yes, there are certain technicals where certainly the raw material prices as well as the technical prices are creeping up. We will have to really see product-by-product. In some products where the brand strength is there to absorb these increases, it would be possible, but certainly there would be somewhere it may be leading to some kind of margin compression. It's hard to say at an overall level.
- Darshita Shah:** If we have taken any price hikes probably on sequential basis in the domestic market ever since the monsoon has picked up?
- S. Nagarajan:** Our pricing has actually been very, very product-specific. I mean, I think there are products where we increase, there are products we reduce, that is more dictated by the strength of our product and the demand that we are out looking for that product. So, to answer your question, some products, yes, but most of the products, I would say have actually had a reduction, I would say YoY is a better comparison because if you compare sequentially the products that go into Kharif and the products, I mean there's a difference, right now we have had more of herbicides and all of that going. So, YoY, I would say pretty much most products there would have been a decline.
- Moderator:** Next question is from the line of Pradeep Rawat from Yogya Capital.
- Pradeep Rawat:** So, my first question is regarding the overcapacity in China. So, we are hearing from other players that there are many capacities in the Chinese mainland has been shut down and their inventory level are also on the higher side. So, can you comment regarding that?
- S. Nagarajan:** Yes, I think that is correct. I think we have also got a lot of input about high capacity. Yes, some of them have closed down, but I think the supply is pretty high, which is what is creating a lid on the price to move even if there is a volumetric demand at the farm level, which is robust. So, yes, I think that is true.
- Pradeep Rawat:** With regard to inventory level side, distributor and retailers in domestic and international market, can you comment on that as well?
- Dr. Gyanendra Shukla:** International supply is certainly continuing. There's no dearth of material. North America is going through a big season and in Latin America, these are the two largest markets they will consume, including China, ASEAN and India. I think at a domestic level, I am sure you're aware that many companies were stuck with inventory and that's one of the reasons prices are still subdued because everybody's trying to



convert that, no inventory to cash and also make sure their products are available during the season. But having said that, I think as monsoon progresses, sentiments are positive, I believe companies also have been very careful in planning subsequent inventories. So, I think at a domestic level situation to only improve, not get worse.

- Moderator:** Next follow-up question is from the line of S Ramesh from Nirmal Bang.
- S Ramesh:** So, there has been an inventory impact in the 1st Quarter. Is it possible to give a value to that inventory impact? And secondly, in the crop care business, the revenue was Rs.428 crore. Can we have a split between domestic crop protection and crop nutrition either in numbers or in percentage?
- Subhra Gourisaria:** So, we keep doing this inventory, we look at trade inventory and look at what is that is sustainable and do the inventory correction at periodic levels. As I mentioned, there was in some parts of the market high rabi inventory which we did correction in the quarter, but I do not think that is a sizable number to be called out. As far as your question around crop protection and nutrition is concerned, we already call out that it is, for instance, in the last year we did around Rs.180 crore of crop nutrition business. So, it's currently around maybe 10-15% of our overall domestic crop care business.
- S Ramesh:** Secondly, if you're looking at say, FY26-27, do you see any additional levers for growth like your manufacturing business or would it just still depend on the export business improving and the domestic business improving in terms of pricing and margin, how do you see say FY26-27 from where we are today?
- Dr. Gyanendra Shukla:** I think I have already articulated as part of my broader strategic intent. There's always a B2B and which is important, is not less important but our focus big way is going to be in B2C and three segments as I said are important, growing crop protection and within that making sure our herbicide portfolio gets beefed up. We start putting extra effort on nutrition and seed managed for profitability. One more thing I want to really talk about crop protection, because of sentiments around pesticides in general based on what has happened recently in what we call spices market, we are also conscious of that fact, and we are also going to be investing in new age portfolio which is more based on peptides, enzymes and biologicals. And that eventually will become the fourth segment as we move forward from a customer perspective.
- Moderator:** Next follow-up question is from the line of Viraj Kacharia from Securities Investment Management Pvt Ltd.
- Viraj Kacharia:** The question is that we have seen a good amount of spend happening in the R&D in seeds portfolio. So, in '24, we did something like 8-10% of our sales in R&D in the seed business. And this is the business where in the past also we have done a lot of spends, but we have seen good amount of impairments and write-offs and all. So, the question is what correction I think the selection process in new products or in the process which we have done which gives you the confidence that you feel better efficiency of the spend? So, that's the second question. And third is do we expect this run rate to continue going forward?
- Dr. Gyanendra Shukla:** So, I think two investments are very critical for us, one is related to R&D and the second one is related to investing in the people. So, these two areas we will continue to invest. Now, your question is whether R&D in seed business has been efficient or not. There's not much I can tell you now, but there's a work going on to say how do



we get more focused in R&D and what are the new tools of R&D we can deploy to improve the outcome of our R&D.

Viraj Kacharia: The average age profile of the product portfolio in seeds and what avenue we think we have in the interim which can drive growth because R&D itself is a I mean seeds, it can take somewhere between 7 to 10 years to actually commercialization. If you can give some thought process?

Dr. Gyanendra Shukla: Look, in normal course, you're right. I think now it cannot be 7 to 10 years because there a lot of modern breeding tools are becoming available, and our attempt would be that get that money focused on few things rather than thinly spreading it. Second thing is also investing that money wisely in the newer technologies, so that we can reduce the time of our product development and launch because 8 to 10 year is really very long and no company can get into that and hope to be successful because by the time you develop product competition moves on. So, we are looking at both the aspects. What we do in a very focused manner and what kind of new technological tools we deploy to make R&D more efficient.

Moderator: Ladies and gentlemen, we will take the last question from the line of Rajkumar Vaidyanathan, individual investor.

R Vaidyanathan: So, my question is regarding the exports. So, if I see the presentation, it says there's a 19% volume growth and leading to 5% value decline. So, that means approximately there's a 20% price decline. So, I just want to know, see, given that you reported negative growth in Q2, Q3 and Q4 of last year on exports, so does it mean that sequentially we are seeing an improvement in terms of the pricing?

Subhra Gourisaria: See, it also depends on the portfolio mix. So, I do not think we can just add up the numbers and say that. But having said that, I mentioned in the earlier call as well that the year-on-year price drop is now going to get anniversarized. So, we will start seeing hopefully not such steep price decline which should probably manifest in better growth numbers. But the situation is quite volatile and it's difficult for us to say how Q2 or Q3 will pan out.

R Vaidyanathan: Ma'am, because in Q2 you reported 50% decline in exports and Q3 and Q4 also a significant decline. So, compared to that in the current Q1, you are reporting only 20% decline in price. So, that is why I am asking this question. So, sequentially then you should have seen an improvement right from a pricing perspective?

Subhra Gourisaria: Yes. So, sequentially, price drops have stabilized. So, sequentially price I would say moderation you will start seeing.

R Vaidyanathan: Also, there was a point mentioned about the buy versus make decision. My question is so are we looking at any asset light model when it comes to exports because if you take companies like Sharda Crop, they have been able to kind of mitigate this price decline because of asset light model. So, I just want to know what do you think that you are kind of late into the kind of the export market by pursuing the manufacturing-led strategy?

Dr. Gyanendra Shukla: Look, we have already made significant investment in manufacturing and our attempt is to really make sure we sweat it out better. Having said that, as we get more relationship abroad, we are going to be making more prudent decision that whether we have to make on our own or we can do things differently. So, it's not one approach



cast in the stone. We are going to be flexible. I think the whole idea is how we grow business and how do we generate better return on the capital employed.

Moderator: Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to the management for closing comments.

Dr. Gyanendra Shukla: I just want to say thank you very much for all your questions. I think they're important to us. They always keep us on the toes to make sure we live up to your expectations. But you have to understand, we are in a very complex business cycle and with a lot of external variables our attempt is to really bring more certainty to the business. Thank you for your time.